

# REGIONAL TRADE INTEGRATION, ECONOMIC GROWTH AND POVERTY REDUCTION IN SOUTHERN AFRICA



Edited by

MOSES TEKERE

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# **Regional Trade Integration, Economic Growth and Poverty Reduction in Southern Africa**



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Edited by

**Moses Tekere**



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This book is dedicated to the orphans of the Mutsanvi Orphanage of Chirume School, located in the Chivhu District of rural Zimbabwe, who have lost their parents to HIV/AIDS.

The orphanage, which is run by elderly people under the coordination of Ambuya Susan Dikinya, who is herself over 90 years old, has continued to face serious resource challenges since its establishment in 2001. Very little is known about the daily struggles of these children as the orphanage is located in a remote area. TRADES Centre would therefore like to contribute the few resources obtained from the sale of this publication to supporting those in need. Accordingly, the proceeds of this book will go towards supporting the orphanage. You can also support the orphanage by contacting TRADES Centre on [trades@tradescentre.co.zw](mailto:trades@tradescentre.co.zw).





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# Foreword

This book is inspired by the work Trade and Development Studies (TRADES) Centre has been undertaking over the past decade, since its establishment in 2000. TRADES Centre's work has covered various areas, such as economic reforms, growth and development, multilateral trade and financial issues, and climate change. But it is the issue of regional integration that has been central, mainly because the countries of southern Africa are married to the ideals of regional integration, as evidenced by the multiple membership and various regional economic groupings. It is also true that Southern Africa, through the Southern African Customs Union (SACU), has the oldest regional customs union so far in the world. On the other hand, this region is also one of the poorest in the world and was the last to be liberated from colonial rule.

Despite a long history of regional integration and a multiplicity of regional organisations in southern Africa, the effect of regional integration on economic growth and poverty reduction remains debatable or elusive. This causes many to doubt whether regional integration is in actual fact an effective poverty reduction strategy.

Accordingly, the focus of the book is to explore and analyse whether specific Southern African Development Community (SADC) trade integration policies, especially the trade liberalisation regime, have produced economic growth and reduced poverty in the region. While it is generally agreed that economic growth is the panacea to poverty reduction, there is little evidence as to whether regional integration in Africa is associated with economic growth in the countries concerned and subsequently leads to poverty reduction.

The book also considers the role of supply-side and productive competitiveness interventions to support the region's free trade agreements (FTAs) to contribute to poverty reduction and its eventual eradication.

The book makes recommendations on how the SADC FTAs can contribute to poverty reduction and socioeconomic development, and goes on to suggest policy proposals on how to enhance the contribution of the FTAs to poverty eradication and economic development. It also identifies specific activities to be undertaken to enable supply-side and productive

competitiveness interventions to support the FTAs and contribute to economic development. The potential constraints and negative impacts of the FTAs are investigated and highlighted, and possible solutions are recommended and motivated.

Accordingly, this book is structured as follows. Chapter 1 explores the theoretical and methodological issues of the link between trade liberalisation, economic growth and poverty reduction in general. Chapter 2 considers the impact of the global economic environment and other challenges (the energy crisis, rising food prices and climate change) on the southern African region, and current global and regional trade liberalisation arrangements. Chapter 3 explores poverty dimensions in the SADC region and national poverty reduction strategies. Chapter 4 provides an overview of the status of SADC regional trade integration in the context of the FTAs, its implementation and challenges. Chapter 5 examines the link between the SADC free trade initiative and its impact on economic growth and the reduction of poverty. It also provides specific examples of high and low impact case policies and interventions. Chapter 6 provides specific cases of six countries, namely Angola, Lesotho, Malawi, Mozambique, Zambia and Zimbabwe. Specific attention is given to the impact trade liberalisation undertaken in these countries has on growth and poverty reduction, with specific reference to the implementation of the SADC Trade Protocol (TP). Chapter 7 provides an analysis of complementary SADC programmes (health, HIV, education, infrastructure, transport and energy, among others) on poverty reduction, and explores the sustainability of regional trade liberalisation, measured in terms of its effect on economic growth and poverty reduction. The eighth chapter outlines strategies and policy recommendations for SADC countries to achieve sustainable economic growth which will have the maximum effect to address poverty through deeper regional trade integration.

Finally, the production and publication of this book were possible through efforts and contributions from our various partners and authors, whose brief profiles are provided in the following pages. We especially want to mention the contribution by Diakonia and Hivos. Special thanks go to TRADES Centre's Board of Trustees – Tendai Chigwada (Director), Petros Shayanowako and Fanuel Hazvina – for their invaluable input. However, all errors and omissions are attributable to the authors and editor.



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# Abbreviations and Acronyms

|        |                                                                           |
|--------|---------------------------------------------------------------------------|
| ACP    | African, Caribbean and Pacific Group of States                            |
| ADMARC | Agricultural Development and Marketing Corporation                        |
| AERC   | African Economic Research Consortium                                      |
| AfDB   | African Development Bank                                                  |
| AGOA   | African Growth and Opportunity Act                                        |
| APIP   | Agricultural Productivity and Investment Programme                        |
| ART    | Anti-retroviral                                                           |
| AU     | African Union                                                             |
| AUC    | African Union Commission                                                  |
|        |                                                                           |
| BACOSS | Basic Commodities Supply Side Intervention                                |
| BLNS   | Botswana, Lesotho, Namibia and Swaziland                                  |
|        |                                                                           |
| CAADP  | Comprehensive Africa Agriculture Development Programme                    |
| CAP    | Common Agricultural Policy                                                |
| CDF    | Comprehensive Development Framework                                       |
| CESPAM | Centres of Specialisation for Public Sector Administration and Management |
| CET    | Common external tariff                                                    |
| CIGI   | Centre for International Governance Innovation                            |
| CIM    | Companhia Industrial da Matola                                            |
| CGD    | Center for Global Development                                             |
| CMA    | Common Monetary Area                                                      |
| COMESA | Common Market for Eastern and Southern Africa                             |
| CPA    | Cotonou Partnership Agreement                                             |
| CSO    | Civil society organisation                                                |
| CTN    | Common Tariff Nomenclature                                                |
|        |                                                                           |
| DANIDA | Danish International Development Agency                                   |
| DDA    | Doha Development Agency                                                   |
| DIS    | Directorate of Infrastructure and Services                                |
| DFTPS  | Duty Free Tariff Preference Scheme                                        |
| DRC    | Democratic Republic of the Congo                                          |

|          |                                                                  |
|----------|------------------------------------------------------------------|
| EAC      | East African Community                                           |
| EBA      | Everything But Arms                                              |
| EFTA     | European Free Trade Association                                  |
| EMIS     | Education Management Information Systems                         |
| EPA      | Economic partnership agreement                                   |
| EPAR     | Emergency Plan for HIV/AIDS Relief                               |
| EPZ      | Export processing zones                                          |
| ESA      | East and Southern Africa                                         |
| ESAF     | Enhanced Structural Adjustment Facilities                        |
| ESAP     | Economic Structural Adjustment Programme                         |
| ETIP     | Extended Target Input Programme                                  |
| EU       | European Union                                                   |
| FAO      | Food and Agriculture Organization                                |
| FBE      | Free basic electricity                                           |
| FDI      | Foreign direct investment                                        |
| FRA      | Food Reserve Agency                                              |
| FSP      | Food Security Pack                                               |
| FTA      | Free trade agreements                                            |
| GDP      | Gross domestic product                                           |
| GEM      | Gender empowerment measure                                       |
| GHGs     | Greenhouse gases                                                 |
| GMB      | Grain Marketing Board                                            |
| GMO      | Genetically modified                                             |
| GNI      | Gross national income                                            |
| GPA      | Global Political Agreement                                       |
| GSP      | Generalised System of Preferences                                |
| GTAP     | Global Trade Analysis Project                                    |
| HBC      | Home-based care                                                  |
| HDI      | Human Development Index                                          |
| HHI      | High Human Development                                           |
| HIPC     | Heavily indebted poor countries                                  |
| HIS      | Integrated Household Survey                                      |
| HIV/AIDS | Human immunodeficiency virus /Acquired immunodeficiency syndrome |
| HPI      | Human Poverty Index                                              |

|                 |                                                        |
|-----------------|--------------------------------------------------------|
| <b>HRD</b>      | Human resources development                            |
| <b>HS</b>       | Harmonised System                                      |
| <b>ICP</b>      | International Cooperating Partners                     |
| <b>ICT</b>      | Information and communication technology               |
| <b>IDB</b>      | Integrated Data Base                                   |
| <b>IEA</b>      | International Energy Agency                            |
| <b>IES</b>      | Income and Expenditure Surveys                         |
| <b>IFS</b>      | International Financial Statistics                     |
| <b>IMF</b>      | International Monetary Fund                            |
| <b>ISIC</b>     | International Standard Industrial Codes                |
| <b>LAFTA</b>    | Latin American Free Trade Association                  |
| <b>LDCs</b>     | Least developed countries                              |
| <b>LHD</b>      | Low human development                                  |
| <b>LHWP</b>     | Lesotho Highlands Water Project                        |
| <b>MCA</b>      | Millennium Challenge Account                           |
| <b>MCIS</b>     | Multiple Cluster Indicator Survey                      |
| <b>MDC</b>      | Maputo Development Corridor                            |
| <b>MDGs</b>     | Millennium Development Goals                           |
| <b>MERCOSUR</b> | Common Markets of the South                            |
| <b>MFA</b>      | Multi-Fibre Agreement                                  |
| <b>MFN</b>      | Most Favoured Nation                                   |
| <b>MGDS</b>     | Malawi Growth and Development Strategy                 |
| <b>MHD</b>      | Medium human development                               |
| <b>MRFC</b>     | Malawi Rural Finance Company                           |
| <b>MSME</b>     | Micro, small and medium scale enterprises              |
| <b>NAFTA</b>    | North American Free Trade Area                         |
| <b>NEPAD</b>    | New Partnership for African Development                |
| <b>NIC</b>      | Newly industrialised countries                         |
| <b>NPRAP</b>    | National Poverty Reduction Action Plan                 |
| <b>NPRS</b>     | National Poverty Reduction Strategies                  |
| <b>NTB</b>      | Non-tariff barriers                                    |
| <b>ODA</b>      | Official development assistance                        |
| <b>OECD</b>     | Organisation for Economic Co-operation and Development |

|          |                                                      |
|----------|------------------------------------------------------|
| OVC      | Orphans and vulnerable children                      |
| PAP      | Poverty alleviation programme                        |
| PARPA I  | First Poverty Reduction Strategy                     |
| PARPA II | Second Poverty Reduction Strategy                    |
| PASS I   | Poverty Assessment Study Survey I                    |
| PASS II  | Poverty Assessment Study Survey II                   |
| PLWHA    | People living with HIV/AIDS                          |
| PMTCT    | Prevention of mother to child transmission           |
| PPAs     | Participatory poverty assessments                    |
| PPP      | Purchasing power parity                              |
| PRGF     | Poverty Reduction and Growth Facility                |
| ProBec   | Programme for Biomass Energy Conservation            |
| PRPs     | Poverty reduction programmes                         |
| PRRO     | Protracted Relief and Recovery Programme             |
| PRS      | Poverty Reduction Strategy                           |
| PRSPs    | Poverty Reduction Strategy Papers                    |
| PTA      | Preferential Trade Area                              |
| PWR      | Participatory Wealth Ranking                         |
| R&D      | Research and development                             |
| RCA      | Revealed comparative advantage                       |
| RDF      | Regional Development Fund                            |
| REPGA    | Regional Petroleum and Gas Association               |
| REPN     | Regional Energy Planning Network                     |
| RERA     | Regional Electricity Regulatory Association          |
| RISDP    | Regional Indicative Strategic Development Plan       |
| RMA      | Rand Monetary Area                                   |
| RO       | Regional orientation                                 |
| RoSADC   | Rest of SADC                                         |
| RoW      | Rest of the world                                    |
| RSA      | Republic of South Africa                             |
| SACCO    | Savings and credit cooperatives                      |
| SACU     | Southern African Customs Union                       |
| SADC     | Southern African Development Community               |
| SADCC    | Southern African Development Coordination Conference |
| SAP      | Structural adjustment programme                      |



|                |                                                        |
|----------------|--------------------------------------------------------|
| <b>SAPP</b>    | Southern African Power Pool                            |
| <b>SATH</b>    | Southern Africa Trade Hub                              |
| <b>SFFRFM</b>  | Smallholder Farmer Fertiliser Revolving Fund of Malawi |
| <b>SHD SP</b>  | Social and Human Development and Special Programmes    |
| <b>Sida</b>    | Swedish International Development Cooperation Agency   |
| <b>SITC</b>    | Standard International Trade Classification            |
| <b>SME</b>     | Small and medium enterprises                           |
| <b>SPS</b>     | Sanitary and phytosanitary                             |
| <b>SSA</b>     | Sub-Saharan Africa                                     |
| <b>STP</b>     | SADC Trade Protocol                                    |
| <b>TB</b>      | Tuberculosis                                           |
| <b>TDCA</b>    | Trade, Development and Cooperation Agreement           |
| <b>TIPS</b>    | Trade and Industrial Policy Strategies                 |
| <b>TNCs</b>    | Transnational companies                                |
| <b>TP</b>      | Trade Protocol                                         |
| <b>TRADES</b>  | Trade and Development Studies Centre                   |
| <b>TRIPS</b>   | Trade-related aspects of intellectual property         |
| <b>UFS</b>     | University of the Free State                           |
| <b>UNCTAD</b>  | United Nations Conference on Trade and Development     |
| <b>UNDP</b>    | United Nations Development Programme                   |
| <b>UNICEF</b>  | United Nations Children's Fund                         |
| <b>UNISWA</b>  | University of Swaziland                                |
| <b>UoM</b>     | University of Mauritius                                |
| <b>US</b>      | United States                                          |
| <b>USAID</b>   | United States Agency for International Development     |
| <b>UZ</b>      | University of Zimbabwe                                 |
| <b>VAT</b>     | Value added tax                                        |
| <b>VGF</b>     | Vulnerable group feeding                               |
| <b>WBI</b>     | World Bank Institute                                   |
| <b>WESTCOR</b> | Western Corridor Project                               |
| <b>WFP</b>     | World Food Programme                                   |
| <b>WHO</b>     | World Health Organization                              |
| <b>WTO</b>     | World Trade Organization                               |

**ZEPARU** Zimbabwe Economic Policy Analysis and Research Unit  
**ZIMVAC** Zimbabwe Vulnerability Assessment Committee  
**ZUNDAF** Zimbabwe United Nations Development Assistance  
Framework

# Introduction

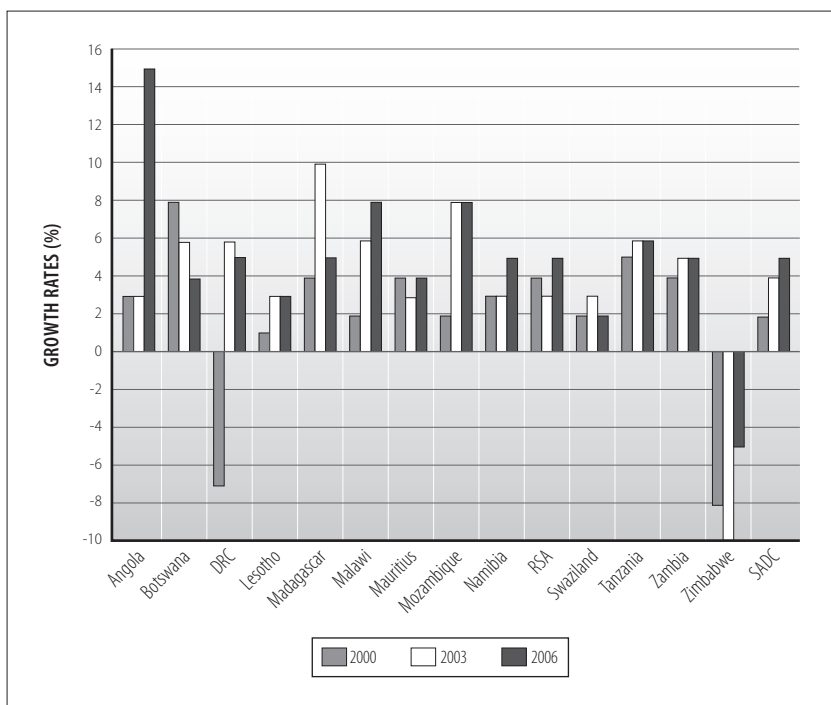
Moses Tekere

THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) REGION is endowed with abundant natural and mineral resources, such as gold, diamonds, platinum, copper and oil, yet it also has a litany of poverty statistics. It has one of the lowest life expectancy, social and human development index (HDI) per capita gross domestic product (GDP) levels; the highest level of HIV/AIDS infections; poor health services; and a high frequency of drought, floods and famine. About 32 per cent of the SADC population of approximately 250 million people lives below the international poverty line of US\$1 per day, while about 70 per cent lives below the US\$2 per day international poverty line (SADC Conference, April 2008). The region continues to register poor socioeconomic conditions and lack of access to basic social services such as clean water, sanitation and health, and to basic infrastructure.

The fortunes of the region are, however, rapidly changing. Over the past decade SADC countries have recorded high positive real GDP growth rates, GDP per capita (purchasing power parity [PPP] in US\$), and declining inflation for all countries except Zimbabwe (see Figure 1). Economic growth was highest among SADC's least developed countries (LDCs). For example, Angola achieved the highest world record economic growth rate of nearly 14 per cent from 2006 to 2008, while Mozambique, Malawi, Madagascar and Tanzania all recorded growth rates in excess of five per cent.

The more developed SADC countries, namely the Republic of South Africa (RSA), Mauritius, Botswana and Namibia, also recorded moderate growth rates, while Zimbabwe was the only exception to this growth trend (see Figure 1). However, the global economic and financial crisis is affecting the drivers of growth in Southern Africa, which have been high global demand and prices for commodities (gold, diamonds, platinum, copper and oil). Recent growth performance has been affected by low demand and prices for commodities, and declining capital and aid inflows.

According to the World Bank (2008), the impact of the global financial crisis and ensuing recession on Africa will be threefold. First, a slowdown

**Figure 1:** *Trends in real GDP growth rates in SADC countries*

Source: SADC and National Statistics, IMF IFS Database

in private capital flows will adversely affect economies that have been relying on these flows to finance much-needed investment, particularly infrastructure investment. Second, commodity prices are falling, which hurts African exporters, although it helps importers. Third, remittances – which run at about US\$15 billion a year to Africa – and foreign aid are also affected.

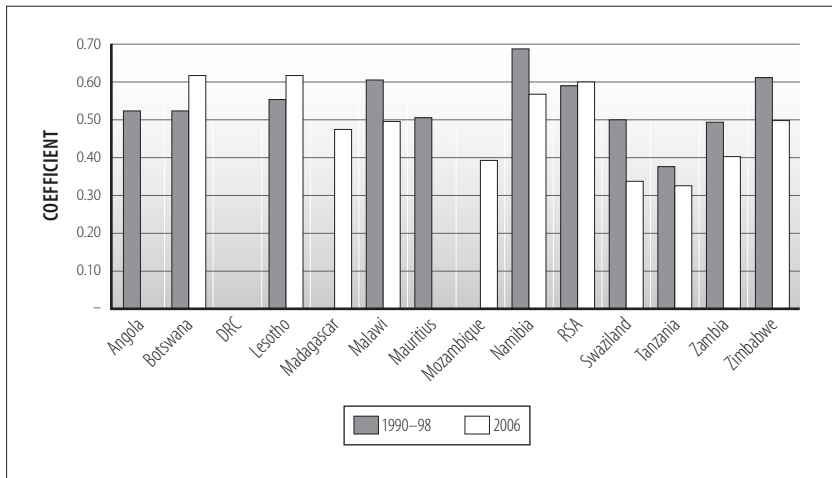
In light of this outcome, the World Trade Organization (WTO) Director-General, Mr Pascal Lamy, suggests that Africa's strategy should be to fight to 'keep markets open and to keep opening markets' while expanding intra-Africa trade and reducing dependence on its trade with industrialised countries.

The current energy crisis, an upsurge in world food prices, the collapse in commodity prices and the financial crisis all present serious challenges for the SADC region in terms of meeting its objectives under the Regional Indicative Strategic Development Plan (RISDP). This is particularly so for achieving both poverty reduction and the internationally agreed hunger-

reduction goals within the Millennium Development Goals (MDGs) framework.

While the region recorded good economic growth over the past decade, an analysis of the distribution of income in these countries, using the Gini coefficient (Figure 2), shows wide income disparities in the countries with high GDP per capita (0,61 for RSA and 0,63 for Botswana in 2006) and more even distribution in countries with lower GDP (0,35 for Tanzania and 0,48 for Madagascar in 2006). This shows that whilst some countries have managed to increase their real GDP and real GDP per capita, a lot still needs to be done to address inequalities by making sure that growth is pro-poor and results in a more even distribution of income.

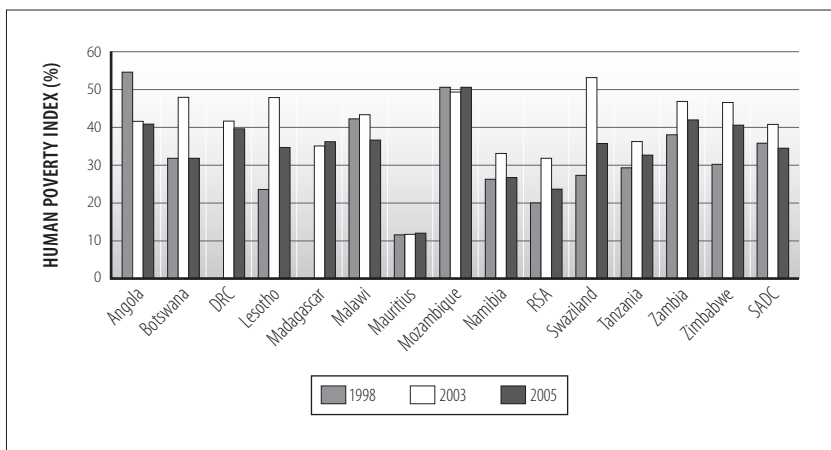
**Figure 2:** *Distribution of income (Gini coefficient) in the SADC region, 1990 to 2006*



Note: DRC data not available. Source: SADC and National Statistics, IMF IFS database

The causes of poverty in the SADC region can be grouped into two main categories, namely natural factors and man-made or entrenched factors of poverty. Natural causes include droughts, floods, cyclones and agricultural cycles. Often these have serious impacts for many families that rely on subsistence farming for survival.

SADC member states lag behind in their implementation schedules to achieve MDG targets. In terms of health profile, SADC's life expectancy has declined from 52 years in 1998 to 48 years in 2008 (Figure 3). Further, the high real GDP growth has not necessarily translated into high gender empowerment. The main obstacles retarding human and social

**Figure 3:** *SADC human poverty indices (HPI)*

development include, but are not limited to, high levels of unemployment, persistent droughts, civil wars (Democratic Republic of Congo [DRC], Mozambique and Angola), the prevalence of HIV/AIDS and other infectious diseases, poor governance, poor infrastructure and social amenities, disturbances in agriculture and the colonial legacies of exploitation.

All SADC least developed countries (LDCs) – Angola, DRC, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia – have implemented a series of International Monetary Fund (IMF)/World Bank inspired Poverty Reduction Strategy Papers (PRSPs) under the Heavily Indebted Poor Countries (HIPC) initiative, while the non-LDCs have designed and implemented own development frameworks that deal with poverty alleviation. The analysis shows that there are commonalities between the various national poverty reduction policies and strategies.

However, these are not coherently managed and harnessed to enhance synergies between different national policies and strategies. Countries' awareness of the regional dimensions of national poverty eradication strategies and policies will enable them to elevate the coordination of these at the regional level, with a view to increasing synergies and enhancing economies of scale through collective intervention.

In 2000, SADC adopted the RISDP that identifies combating poverty as the overarching priority in its integration agenda through the implementation of a number of intertwined interventions. The overall goal of the RISDP is to promote sustainable and equitable economic growth and

development that will ensure poverty reduction, with the ultimate objective of its eradication. The RISDP also mentions that poverty eradication is a crosscutting issue that should be mainstreamed in all other RISDP priority intervention areas. However, the RISDP implementation framework has not articulated how regional trade integration will contribute to poverty eradication. In addition, the implementation framework has not clearly identified specific poverty-focused activities or examined the contribution of the FTAs to poverty eradication.

While most national poverty reduction strategies being pursued by SADC countries are silent about the RISDP, a comparison of various national poverty reduction programmes (PRPs) with RISDP interventions shows some coherence and consistency with linkages to the attainment of the MDGs. However, the linkage obtained between national and regional poverty reduction is not coincidental; it is due to the fact that the RISDP was drawn up on the basis of national PRSPs and derives from national consultations and inputs by SADC member states. It also underlies the commonality of poverty dimensions and challenges across the region. Lack of explicit reference to RISDP interventions and targets in PRSPs, however, downplays the role of regional economic integration. In other words, countries need to build on commitments undertaken at regional level in their PRSPs and national budgets.

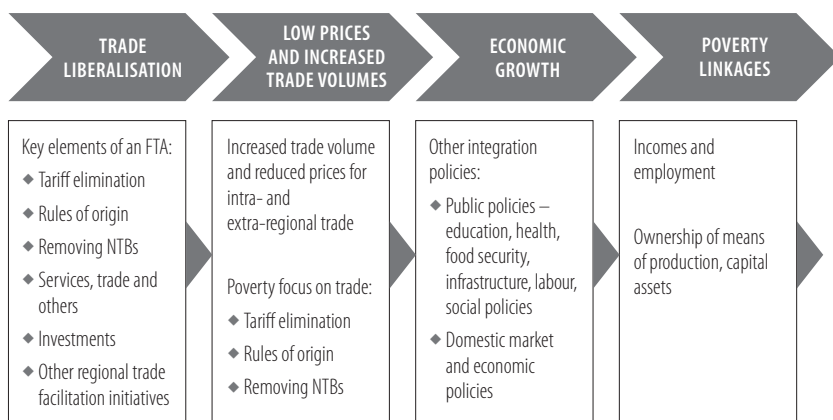
Rules and disciplines of regional (Common Market for Eastern and Southern Africa [COMESA], East African Community [EAC], Southern African Customs Union [SACU], African, Caribbean and Pacific Group of States–Economic Partnership Agreement [ACP-EPA], African Growth and Opportunity Act [AGOA]) and multilateral (WTO) trade arrangements, as well as bilateral agreements and autonomous structural adjustment programmes supported by the IMF and the World Bank, have so far largely guided the trade liberalisation policies of SADC countries. The common denominator, in terms of the trade policy orientations and objectives of SADC countries, includes committing to autonomous trade liberalisation; committing to regional trade liberalisation as the building blocks of multilateralism; seeking increased market access for their exports in the world markets through the WTO; the use of preferential market access currently available under AGOA, ACP-EU and WTO, especially for LDCs; tariff rationalisation, reduction and unification; export-led growth and the maintenance of open markets abroad; and the use of trade defence instruments in place of non-tariff barriers (NTBs).

One overriding consideration in the trade policy of SADC countries as it applies to border taxes is the revenue generation of duties. For most SADC countries, tariffs are not used for industrial development but serve as the most reliable source of government revenue.

In 2000, SADC adopted the SADC Trade Protocol (TP) and, at its annual summit in August 2008, it officially launched its FTA. So far, most countries, apart from Angola and Seychelles, have joined the FTA, which will see the creation of a common space for the free movement of goods in the region.

Figure 4 shows the analytical framework for studying the linkage between trade and poverty reduction. Trade liberalisation is a process rather than a state. It entails significant reduction in direct and indirect controls on foreign trade that involve greater reliance on markets for channelling investment and other resources into the tradable sector. This leads to growth in trade and subsequently feeding in export-led economic growth, which, if accompanied by appropriate redistributive mechanisms, effectively reduces poverty. Trade liberalisation by its nature results in trade creation or trade diversion, thereby resulting in gains or losses for the trading partners within the context of an FTA. In this way, regional and national trade liberalisation affects incomes and employment levels, as well as investment and capital. Through these, FTAs indirectly affect parameters central to the measurement of poverty, such as access to health and education services and levels, access to and ownership of the means of production, empowerment and exclusion.

**Figure 4:** *Framework for assessing the impact of regional integration on poverty via trade*





The limitations of the positive effects of trade liberalisation include, among others, the problem of distribution of gains, whether static or dynamic. If actual or potential trade within the region is large, governments will forfeit a large part of revenue. Depending on the market structure, this revenue lost to government may be appropriated by monopolies or passed on to consumers. In general, unlike static effects, the dynamic effects of trade liberalisation provide quite intractable measurement problems, in part because of their more nebulous nature but more so because of the difficulties of extricating such influences from other influences (whether policy induced or otherwise).

The implementation of SADC FTAs is advanced but varied. For instance, SACU countries have reduced tariffs beyond the committed levels, while some countries that back-loaded their phase-down schedules have not. Further, while the SADC Trade Protocol has generally been implemented by most countries, much of the intra-SADC trade takes place either under existing bilateral arrangements or (mostly) the COMESA trade regime owing to restrictive rules of origin under SADC. This makes the SADC regime less important for spurring intra-regional trade compared to COMESA.

Generally, measuring the impact of the SADC FTA is premature, as it is not fully implemented by all. However, preliminary analysis shows that its impact on poverty is varied in the way it affects different households and countries. There are a number of salient features and outcomes, for example:

- Growth of SADC total trade has been phenomenal. Between 2000 and 2008, overall, SADC total exports more than doubled, moving from US\$51,29 billion to US\$113,63 billion as a result of increases in international commodity prices and good economic governance across the region.
- The value of intra-SADC trade also doubled, but the share of intra-trade as a percentage of total trade declined from 12 per cent in 2000 to 9,5 per cent in 2008. Some of the reasons for diminishing SADC intra-regional trade include very high growth of extra-SADC trade; competing production structures; limited tradable goods (except for South Africa, where production lines reflect an external bias); import substitution policies; and imperfect market structures resulting from the dominance of transnational corporations.

The study defines the pro-poor consumption basket as including maize, cooking oil, sugar, soap and clothes. These five commodities, while not exhaustive, are common in the pro-poor consumption bundle for most countries. Export and import data for these products are also readily available to allow analysis. While other commodities and services, such as health and water, are very relevant for poverty measurement, trade data are unavailable. According to the SADC Regional Food Security Bulletin (2007), the region considers maize, wheat, rice, millet and cassava as the products which constitute its food security basket and, hence, most important for alleviating poverty; yet these do not feature in the top ten basket of intra-SADC trade.

The study established that the pro-poor commodity trade within SADC intra-trade accounted for at least four per cent of export flows for the individual countries during the 2000 to 2008 period, as shown in Table 1. Malawi, Mauritius, Lesotho and Swaziland recorded the highest export flows, above 22 per cent.

**Table 1:** *Percentages of SADC pro-poor commodities in total flows (2000–2008)*

| Country    | Export flows | Import flows |
|------------|--------------|--------------|
| Botswana   | 12           | 7            |
| Lesotho    | 22           | 12           |
| Madagascar | 9            | 16           |
| Malawi     | 29           | 7            |
| Mauritius  | 24           | 5            |
| Mozambique | 4            | 3            |
| Namibia    | 4            | 8            |
| RSA        | 7            | 6            |
| Swaziland  | 26           | 8            |
| Tanzania   | 13           | 6            |
| Zambia     | 8            | 4            |
| SADC       | 10           | 6            |

The main observation is that most national liberalisation schedules under the SADC TP are not designed to address poverty reduction, for the following reasons:

- For most countries, sensitive products, namely exclusions from tariff liberalisation, are dominated by agricultural products, thus limiting the impact on poverty reduction.
- The maize trade, specifically, is not part of the 85 per cent threshold of substantially all trade liberalisation attained by 2008, as it is still part of the sensitive basket for most countries. While maize is the key poverty reducing product consumed in the region, there is generally limited free maize trade in the SADC region as countries often invoke export and import bans at will.
- The analysis confirmed that countries protected sectors of national development interests and opened up sectors where there is no trade or limited trade with countries in the region, rather than where consumers and local producers would derive more benefits.
- The structure of SADC top ten exports by value and share between 2000 and 2008 is dominated by non-food products (mineral fuels and oils, and pearls and precious metals), hence they do not have a serious impact on poverty alleviation.

For the poor to benefit from the SADC FTA and to reduce poverty, the study recommends that pro-poor agricultural products, especially maize and other cereals which constitute the essential regional food basket, need to be removed from the sensitive list basket and that all non-tariff barriers are dealt with to facilitate the free flow of goods across the region.

The pro-poor production basket is defined to consist essentially of food, and mainly maize, which is the staple food. There is evidence in the study that growth in both subsistence and commercial agriculture has a larger impact on poverty reduction than growth in other industries, as most of the poor are involved in agricultural production. Careful country intervention, such as the fertiliser and inputs subsidy for maize production, reduces poverty notwithstanding the implementation of the SADC FTA.

Furthermore, to assist the poor in the production of food and other basic necessities there is a need to provide them with the requisite finance. Microfinance provides one channel through which vulnerable groups could be empowered to participate in trade. This would enhance growth and subsequently reduce poverty by improving income-generating activities and employment creation. New indirect opportunities for poverty reduction are arising even within agriculture, particularly in the untapped

agricultural potential for biofuels in Angola and Mozambique. However, consumption and production response to trade liberalisation has been limited, owing to a number of supply-side constraints and non-tariff barriers.

Product-specific rules of origin under the SADC TP are too trade restrictive and need to be revised urgently. These rules of origin, initially adopted to promote regional value addition through local processing, protect against possibilities of trans-shipment and encourage regional cumulation and serve to protect South African industry, which has the capacity and technology to venture into new areas of processing and manufacturing. Consequently, SADC is working on revising these rules with a view to making them easy to use.

Trade flows in SADC exhibit a triangular pattern. SACU imports raw materials from non-SADC countries and then exports the finished product/s to SADC countries, while other SADC countries mainly export raw material commodities to rest of the world. The RSA remains the main source and destination of intra-SADC imports and exports respectively, while Swaziland, Tanzania and Zambia have had their shares of intra-SADC trade increase. SADC as a unit is a net importer of foodstuffs and net exporter of non-foodstuffs, which are generally destined for industrialised countries for further processing. Within SADC, some of the products exported outside the region are also imported into other SADC countries, exhibiting some potential for promoting intra-regional trade in some of these commodities through trade policy reform.

During 2008, the following pairs of countries showed an above average tendency to trade with each other in the pro-poor commodity bundles:

Malawi – Zambia  
 Mauritius – Botswana  
 Mauritius – Zambia  
 Namibia – Botswana  
 Tanzania – Malawi  
 Tanzania – Zambia  
 Zambia – RSA

The formal production structures in the SADC region are imperfect, oligopolistic and uncompetitive. Small and medium enterprises (SMEs) face serious and numerous problems in terms of participating in both national and regional markets. However, by opening up markets the FTA provides

the potential for transforming closed production structures to become more regionally competitive. For this to materialise, liberalisation needs to be accompanied by good macroeconomic policies, institutional market reforms and good infrastructure facilities. Researchers identify weak infrastructure, poor trade facilitation services and inadequate physical and human capital as impediments to African competitiveness and the development of its export sectors.

Intra-SADC trade could potentially be increased through the production of non-traditional exports, the reduction of both tariff and non-tariff barriers, as well as the harmonisation of sanitary and phytosanitary (SPS) measures and standards. SADC trade data show that there is the potential for increasing intra-regional trade and avoiding reliance on countries outside the region.

However, fluctuations in various trade intensity indices employed to examine the pattern of SADC trade between 2000 and 2008 do not reflect successes in the SADC (FTA) arrangement in terms of creating more trade within the region, especially in the pro-poor commodities. The pattern of trade has fluctuated over the years, rather than following a pattern that would be consistent with a gradual removal of trade restrictions. This is also likely to have been caused by the limited complementarity in the exports and imports of the member countries. A successful avenue is likely to be one where dynamic comparative advantage is created.

For all the country case studies it is apparent that many of them have either just completed or are still to complete implementation of the SADC TP; hence, the assessment of the impact of the FTA on poverty is rather early. In general, however, empirical evidence seems to support the idea that SADC trade is good for poverty reduction, although trade is likely to affect individual households and countries differently. The strength of the poverty-reducing effect of trade would, to a large extent, depend on the national policies accompanying the SADC trade liberalisation process.

Some country-specific conclusions emerged:

#### ■ Malawi

The Malawi case study clearly shows that while the country has not fully implemented its commitments to open up 85 per cent of its trade under the SADC FTA by 2008 as a result of revenue considerations, it has been able to record significant economic growth and poverty reduction in particular. This has been through well-designed interventions in

agriculture, such as the fertiliser subsidy and input programmes targeting small-scale farmers and major food crops. The agricultural sector is labour intensive and interventions in this sector affect incomes for a wider group of people.

Further, it is noted that between 1998 and 2005 poverty was estimated to have reduced by five per cent, from an estimated 54.1 per cent to 49.1 per cent. However, this does not correspond to sustained high economic growth rates of above five per cent and over ten per cent in terms of trade. This is mainly due to the skewed distribution of benefits from export and economic growth, which favour employers over labour.

### ■ **Zambia**

For Zambia, apart from the copper export and price boom, reaching the HIPC completion point has had a significant impact on improving its economic performance and poverty reduction. At the same time, implementation of the SADC TP has widened Zambia's imports from and exports to the regional market, while the poverty situation has also improved since 2000.

As Zambia was also implementing a wide range of economic and trade reforms within autonomous, bilateral, regional (COMESA) and multilateral (WTO) trade liberalisation, no direct link can be made to the implementation of the SADC TP. Exports from Zambia to the region are mainly concentrated in minerals and equipment, which have no direct bearing on poverty reduction. Zambia needs to diversify into the production of poverty-reducing products, especially those that are agriculture related, as well as to embark on value addition for products that require manual work and not machinery.

The benefits of an FTA are compromised by high production costs (particularly of fuel and electricity), lack of skilled human resources, underdeveloped infrastructure and various non-tariff barriers, which domestic producers and consumers respectively face, compared to their counterparts in the region.

### ■ **Angola**

Angola places little priority on trade liberalisation. It has not implemented trade liberalisation measures under the SADC FTA and, hence, no link can be made between regional trade liberalisation and poverty

reduction in Angola. Notwithstanding, Angola is experiencing world record economic growth rates, driven mainly by the production and exports of oil and diamonds.

However, dependency on these two extractive sectors has not been accompanied by a major reduction in poverty for the vast majority of Angolans. Income is concentrated in the oil sector and in the capital Luanda, making Angola's income inequality one of the highest in the world.

Angola has not taken advantage of the preferential market access offered by industrialised countries (Everything But Arms [EBA], Generalised System of Preference [GSP] of China, India, Australia and AGOA), but relies on its resources for generating growth and development. However, the ongoing government initiatives to redevelop agriculture – a pro-poor sector – may have a positive impact on poverty reduction in the future.

## ■ Lesotho

Lesotho's macroeconomic and social ties with South Africa are central to the underlying drivers of its development (or causes of its poverty). Lesotho is locked into a subsidiary status and role as part of the South African commercial economy, hence the link between SADC trade and the impact on poverty reduction is limited, as its trade regime is determined within SACU.

The RSA is its major trading partner and very little trade has been created with other SADC countries since the implementation of the FTA regime. Lesotho's revenue base relies too much on revenue sharing in SACU and migrant workers' remittances from South Africa, as well as on exports to the United States (US) under AGOA. In addition, climate variations are an increasing feature of Basotho livelihoods and household food deficit has become the norm.

Apart from Zimbabwe, Lesotho experienced the least level of economic growth over the past decade. To address the structural challenges and worsening poverty levels in Lesotho, it is important to diversify the economy by encouraging growth in other sectors. These have the potential of attracting labour-intensive foreign direct investment (FDI) and adequately addressing obstacles faced by existing foreign affiliates to upstream investment in the garment industry.

### ■ Mozambique

Since the end of the civil war, two decades ago, Mozambique has reduced its incidence of poverty. This has been possible through effective economic management and donor support. Mozambique has a good record in implementing the SADC Trade Protocol and FTA, which has made a positive contribution to poverty reduction through job creation in agriculture and tourism. Emerging market economies are becoming important in Mozambique's investment profile and trade patterns.

The major challenge for Mozambique is improving on trade facilitation. There is consensus that the rules of trade should be made simpler and more standardised. This is further echoed by the need to have a single SADC export/import document in English, French and Portuguese that can be electronically submitted to reduce the amount of paperwork and delays at the borders. There is also a need to have a single border crossing between all countries to reduce delays.

### ■ Zimbabwe

Of the six country case studies, Zimbabwe stands out as the only country where poverty levels have worsened seriously over the past decade. It has failed to derive benefits from SADC trade liberalisation, mainly as a result of its own internal problems and the illegal economic sanctions imposed by the US and the EU that effectively handicap local producers through a series of anti-export policies.

Decline in the key sectors of the economy have occasioned high unemployment, an inefficient health delivery system, reduction in FDI and the drying up of balance of payments support. The pervasive price controls and, in particular, foreign currency surrender requirements disable the viability of export industries and cripple the operations of industry, which rely heavily on imported inputs.

The significant progress that the country had made in the development of infrastructure, health and social service delivery systems has been reversed through limited or withdrawn support; hence, the country has not been able to position itself strategically in the region. Trade liberalisation at all levels (autonomous, bilateral and regional) has been characterised by policy reversals and unpredictability. The situation in Zimbabwe is, however, currently improving following the Global Political Agreement (GPA) and the new inclusive government.





Generally, the six country case studies present a much more complex picture of the changes that trade liberalisation is likely to trigger and of the resulting consequences. It seems that the effects of integration on economic growth and poverty reduction in each case are country and household specific and require a strong social welfare environment to ensure that the majority of the poor benefit.

Trade liberalisation measures alone cannot reduce poverty. Hence, SADC has several other programmes that complement each other in reducing poverty. These include programmes on Social and Human Development and Special Programmes, HIV, health, education and SADC transport and communication, and energy.

The main conclusion of the study is that the SADC region has recorded impressive trade and economic growth in general over the past decade. However, the linkages between trade liberalisation and growth and poverty reduction are not automatic, but multiple, complex and indirect. Accordingly, the SADC FTA has had a limited impact on poverty eradication, owing to the exclusion of pro-poor products from trade liberalisation and challenges related to income distribution.

To enhance the poverty reduction effect of SADC regional trade integration, a number of recommendations are put forward for implementation at national, regional and multilateral levels. These include the following:

- Proposals to address the challenges facing the new FTA
- Proposals on high impact poverty interventions at regional level under the FTA
- Proposals on viable poverty-focused regional projects for implementation at national and regional level
- Proposals to enhance the implementation of the SADC regional framework to reduce poverty
- Proposals to improve the understanding of the need to address the poverty dimensions of regional integration
- Proposals to enhance the awareness of stakeholders and to define their role in regional integration and poverty issues
- Proposals on mainstreaming poverty reduction in SADC programmes
- Proposals to mobilise resources from SADC's traditional and non-traditional donors for targeted poverty interventions.

# 1

## **Foundation for Analysing the Impact of Regional Trade Liberalisation on Economic Growth and Poverty Reduction**

Moses Tekere

### **Introduction**

THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) REGION IS endowed with abundant natural and mineral resources (such as gold, diamonds, platinum, copper and oil), yet it also has a litany of poverty statistics. It has one of the lowest life expectancy, social and human development index per capita GDP levels, the highest level of HIV/AIDS infections, poor health services, and frequency of droughts and famine. Collectively, as a result of the current situation in Zimbabwe, the region has the highest inflation rate and unemployment levels in the world. About 32 per cent of the SADC population of approximately 245 million lives below the international poverty line of US\$1 per day, while about 70 per cent lives below the US\$2 per day international poverty line (SADC Conference, April 2008). The region continues to register poor socio-economic conditions, lack of access to basic social services such as clean water, sanitation and health, and lack of access to basic infrastructure.

A number of historical factors and conditions, namely, the colonial policies of exclusion of the majority from mainstream economic activity, and the exploitation of the majority, in particular the expropriation of means of production and international sanctions that created and perpetuated poverty in the region. Without access to means of production, poverty became endemic and entrenched among some social groups and classes, in particular workers and peasants. Various post-independence policies across the region have attempted, without much visible success, to address these challenges at both national and regional levels.

SADC, formerly known as Southern Africa Development Coordination Conference (SADCC), is a regional integration arrangement bringing together 15 countries in southern Africa, whose main purpose is collective self-reliance to combat poverty and promote development of the region. In 2000, SADC adopted the Regional Indicative Strategic Development Plan (RISDP) as the main framework for its regional integration programme. The RISDP identifies combating poverty as the overarching priority in its integration agenda through the implementation of a number of intertwined interventions.

The overall goal of the RISDP is to promote sustainable and equitable economic growth and development that will ensure poverty reduction with the ultimate objective of its eradication. The RISDP also mentions that poverty eradication is a crosscutting issue that should be mainstreamed in all other RISDP priority intervention areas. Furthermore, the RISDP claims that the regional strategies to eradicate poverty are consistent with, and complementary to, national strategies. However, the RISDP implementation framework has not articulated how regional trade integration will contribute to poverty eradication. In addition, the implementation framework has not clearly identified specific poverty-focused activities or examined the contribution of the free trade agreements (FTA) to poverty eradication.

In 2000, SADC adopted the SADC Trade Protocol (STP) and at its annual summit in August 2008 it officially launched its FTA. So far, all countries except Angola and Seychelles have joined the FTA, which will see the creation of a common space for the free movement of goods in the region.

At the same time, SADC member countries have developed national policies and programmes aimed at addressing poverty at national level. There are commonalities in national poverty reduction policies and strategies that link to the regional integration policies and strategies. These commonalities are not, however, coherently managed and harnessed in order to enhance synergies between different national policies and strategies. Countries' awareness of the regional dimensions of national poverty eradication strategies and policies would enable them to elevate the coordination of these at the regional level with a view to increasing synergies and enhancing economies of scale through collective intervention.

While SADC adopted the RISDP as an instrument for development and poverty reduction, the nexus between poverty reduction and regional

integration, in particular trade liberalisation under the FTA, is not clear. The launch of the SADC FTA is a major historical milestone for the region towards unifying markets that, owing to historical circumstances, were balkanised. With this major milestone it is important to assess how the FTA will impact on poverty, hence the timelines of this study.

## **Theoretical foundation**

### **Impact of the FTA on growth and poverty is varied, depending on the country and the region**

The essence of an FTA is trade liberalisation, which needs to be conceptualised as a process rather than a state. Trade liberalisation entails significant reduction in direct and indirect controls on foreign trade that involves greater reliance on markets for channelling investment and other resources into the tradable sector. This leads to growth in trade and subsequently feeding in export-led economic growth, which, if accompanied by appropriate redistributive mechanisms, effectively reduces poverty. By the same logic, the essence of liberalising trade affects the prices that the poor face both as producers and consumers. If the prices of the goods consumed by the poor fall and the prices of the goods they produce increase, trade liberalisation will have a positive effect on poverty.

Therefore, in assessing the economic impacts of trade liberalisation, it is important to determine the extent to which a country or region has moved from an inward-oriented economy to an export-oriented strategy. As many SADC countries have high internal tariffs on agricultural products, a removal of these will most likely lead to a reduction in producer prices and lower income. The fear of increasing poverty is real, but at the same time new opportunities may arise, even within agriculture. For subsistence farmers, the market prices of their output may play a minor role on their welfare in the short run, although it might lead to switching to production of other commodities with higher relative prices.

However, the effects of trade opening in developing economies and their measurement continue to be subjected to debate and different interpretations. This is mainly due to the fact that trade liberalisation is generally associated with (a) increased competition, which improves domestic and external competitiveness, eventually leading to a reduction

or elimination of inefficient production and job losses; (b) provision of expanded market opportunities; and (c) when combined with reduced discrimination against exports (anti-export bias), trade liberalisation allows the exploitation of comparative advantage and ultimately results in higher rates of growth.<sup>1</sup>

Trade liberalisation by its very nature results in trade creation or trade diversion, thereby resulting in gains or losses for the trading partners within the context of an FTA. Trade creation effects occur if the reduction or elimination of trade barriers results in the replacement of inefficient domestic industries in one member country by a relatively more efficient industry of another member country. Trade creation may also occur when there is displacement of a less efficient external supplier by a more efficient producer within the FTA. Trade diversion occurs when imports of a more efficiently producing country are replaced by a less efficiently producing country because of the reduction of trade barriers among member countries.<sup>2</sup> Economic integration benefits are thus assessed on the basis of the degree to which 'trade creation' outweighs 'trade diversion'.

Where trade creation is predominant, one of the members of the integration group at least must benefit, all of them may benefit and the world at large benefits; however, the outside world loses at least in the short run and can gain in the long run only as a result of the positive externalities of the increased prosperity of the customs union area.<sup>3</sup> If trade diversion predominates, at least one of the members is bound to be injured, all combined will suffer a net injury, and there will be injury to the outside world and to the world at large.

### **Trade creation and diversion entails static/dynamic gains and losses**

The gains or losses from trade liberalisation may be static or dynamic and may require anticipation and conscious balancing. The pattern of specialisation and distribution of gains and losses resulting from trade liberalisation will depend on a number of factors, among which are the respective market structures of production and demand of the trading partners. Some of the readily identifiable static effects include production effects, consumption effects, revenue effects, balance of payments effects and terms of trade effects. Dynamic effects are more speculative and include economies of scale and enhanced efficiency in production.

According to Greenaway,<sup>4</sup> trade liberalisation reduces the relative production and supply inefficiencies of the domestic scene and eliminates losses resulting from the resource misallocation that is associated with tariffs. Tariff reduction also results in a consumption effect, as customers are able to purchase imports at a lower price and obtain a net gain in consumer surplus. Most studies of the consequences of tariff liberalisation make some attempts at quantifying these 'deadweight gains'.

Trade liberalisation affects not only the external sector, production and prices, but also the fiscal balance through changes in tariff revenue. Theory suggests that trade revenue can increase by reducing very high tariff rates only if tariff evasion rates fall or if import demand is price elastic. Otherwise, measures to reduce fiscal expenditure or enhance revenue from other less distorting, broader taxes (e.g. consumption taxes, VAT, income tax, etc.) may need to be implemented.

Trade liberalisation is believed to result in a deteriorating trade balance in the short run, as imports explode while exports grow modestly. In order to limit trade balance deterioration, trade liberalisation can be accompanied by devaluation. It is argued that devaluation enhances the competitiveness of exports by reducing the price in foreign currency terms or by removing the implicit export taxes inherent in overvalued currencies.

The dynamic effects of trade liberalisation are theoretically very important to developing countries. Tariff reduction should result in increased competition and enhanced efficiency in production, made possible by increased specialisation in accordance with the law of comparative advantage. As tariffs and other impediments to trade are removed and the market expands, the number of potential competitors increase, monopolistic and oligopolistic market structures are exposed to outside pressures, and inefficient firms are forced to become efficient. These results may lead to research and development, in turn enhancing economic growth. If there is a reduction of production and marketing constraints, this will result in expanded total exports and a broadening of the export base (to include non-traditional exports) that will exert important linkage effects on other sectors of the economy, for example the establishment of contacts could stimulate other cooperative ventures in areas such as finance, insurance and transport, and the resulting rapid industrialisation would be based on the more efficient utilisation of resources.

It is often argued that the widening of markets which follows from trade liberalisation can result in increased opportunities for exploiting

economies of scale, with larger output leading to reductions in unit cost. If such reductions are passed on to consumers (as they would be in competitive markets), then there would be ‘second round’ gains from consumption and production effects as prices fall. It can also be emphasised that the removal of tariffs has beneficial effects on incentives and output, since it readily makes available the imported inputs needed for production activities with potential. This is normally the case if those imported inputs were previously subject to licensing.

The potential limitations to the positive effects of trade liberalisation include, among others, the problem of distribution of gains, whether static or dynamic. If actual or potential trade within the region is large, governments will forfeit a large part of revenue. Depending on the market structure, this revenue lost to government may be appropriated by monopolies, or it can be passed on to consumers. In general, unlike static effects, the dynamic effects of trade liberalisation provide quite intractable measurement problems, in part because of their more nebulous nature, but more so because of the difficulties of extricating such influences from other influences (whether policy induced or otherwise).

### **Empirical evidence on the link between FTA, economic growth and poverty reduction in Africa is inconclusive**

While much has been written on the link between trade and growth from both a theoretical and an empirical perspective, the conclusion remains inconclusive as it relates to Africa’s regional economic communities. In general, the finding that trade openness, broadly defined, promotes growth, as reported by Dollar,<sup>5</sup> Sachs and Warner<sup>6</sup> and Dollar and Kraay,<sup>7</sup> has been questioned by Rodriguez and Rodrik<sup>8</sup> on the grounds that their measures of trade liberalisation and their econometrics are inconsistent.

In their controversial study, Dollar and Kraay<sup>9</sup> found a positive relationship between trade, growth and poverty reduction. The authors selected a group of countries that they called ‘globalisers’; countries with large tariff reductions and a high trade-to-GDP ratio since the 1980s. For this group of countries, they establish a positive link between the change in trade volume and economic growth rates. Furthermore, looking at the distribution of the gains from increased growth, they find that the income of the poorest fifth of society increases proportionally and conclude that trade is

good for the poor. The reliability of findings such as those in Dollar and Kraay<sup>10</sup> on the basis of cross-country studies has been questioned, but the result has been replicated in time-series analysis for individual countries. Tsai and Huang,<sup>11</sup> for instance, find a one-to-one relationship between the growth of the average income of the bottom 20 per cent of the population and the growth of the mean income of Taiwan's population over the period 1964 to 2003. Their findings also suggest that trade has contributed to increasing the mean income of the poor, not only through its impact on growth, but through a positive impact on distribution, that is, on the share of income accruing to the poorest fifth of society.

Cruz,<sup>12</sup> Amsden<sup>13</sup> and others argue that although free trade has been perceived as a possible panacea for developing countries' poverty and underdevelopment problems, historical evidence nevertheless indicates that the now developed countries made trade an engine of economic growth and development by gaining from static and dynamic gains of trade only through the application of policies outside the conventional rhetoric of free trade. Evidence indicates that the now developed states employed an arsenal of trade barriers, including policies which were aimed at protecting their infant industries from external competition. They also vigorously adopted trade and industrial policies that included, among others, export subsidies. A good example in this regard is the European Union's (EU) Common Agricultural Policy (CAP), the history of which dates back to the 1950s. Because of these anti-free trade policies, 'historically, relatively high tariffs have accompanied major waves of industrialisation'. Even in the contemporary globalised world there is not a single developed country that does not apply some sort of industrial policy or claim to be totally open.

Accordingly, there is no conclusive link between trade liberalisation and poverty reduction, as other factors such as geographical configuration and institutional set up also play a part in making it difficult to measure the impact of trade on the economy. Wiig et al<sup>14</sup> argue that even though one might find evidence that trade leads to growth, economic growth does not necessarily trickle down to poverty reduction. In developing countries, growth in agriculture usually has a greater impact on poverty reduction than growth in other industries, as most of the poor are involved in agricultural production.

Within the SADC region, the overall empirical evidence fits the picture of more trade being associated with lower levels of poverty. During the



period 1990 to 2005, Lesotho, Malawi, Mozambique, Swaziland, Tanzania and Zambia all experienced remarkable economic growth supported by an increase in trade and a reduction in poverty. Angola experienced an increase in the poverty rate and an increase in trade over the same period, while Zimbabwe experienced worsening poverty levels and poor economic growth. On the other hand, Madagascar, South Africa and Botswana show diverging experiences in trade and poverty; both poverty and trade have decreased for Botswana, while for South Africa and Madagascar the increase in trade has not been associated with poverty reduction. So, the evidence from these countries also supports the notion that more trade is positively associated with poverty reduction, while less trade is associated with higher levels of poverty.

One of the difficulties lies in the fact that trade affects individuals and countries in various ways. It may affect their income – through effects on employment, distribution of resources and/or growth – and it may affect their expenditure through its effect on the prices of consumer goods. Trade reform may also affect the poor through its impact on government revenue and spending. The combined impact of these different effects tends to be difficult to assess. This may explain why most of the evidence on trade and poverty is indirect evidence that focuses on one or two of the ways that trade may affect poverty.

### **Realities of trade liberalisation versus potential gains from trade**

Although theory and advocates of free trade allude to these benefits as accruing to a trade liberalising country, some of these benefits, especially of economic growth and poverty reduction, may not materialise for the following reasons.

#### *Resource shifting is once-off*

Thirlwall<sup>15</sup> argues that the static gains of trade liberalisation, mainly in the form of resource shifts from one sector to another as a result of increased production specialisation induced by trade, are normally a once-off improvement. Thus, removal of both tariff and non-tariff barriers to trade will result in resource shift across sectors once, after which such static gains will be exhausted.

*Enclaved foreign direct investment (FDI)*

Although the presence of trade liberalisation encouraged FDI in most developing countries, ‘...evidence on international specialisation suggests that developing countries are becoming increasingly similar to major industrial countries in the structure of their exports but not in the structure of their manufacturing value added’ (UNCTAD, 2003). Nevertheless, the presence of FDI in developing countries has, in most cases, not been transformed into real benefits to the host countries, given that most foreign manufacturing firms source their inputs from foreign markets and not domestic markets. Using a case study of Mexico, Pacheco-López and Thirlwall<sup>16</sup> claim that

... exporters found it more convenient to turn for imports for most of their input needs. Another study by Palma (2005a)<sup>17</sup> showed that in 2001, Mexico ‘produced more than 30 million sets of TV, 90 percent of which were exported to the USA, but 98 percent of the related inputs had either been imported directly or indirectly’ (i.e., inputs supplied by other foreign firms operating in Mexico, who also import most of their input).

In such a scenario there will be virtually no benefits to local firms, given absence of both backward and forward linkages with domestic firms.

*Limited growth in production capacity*

Whilst theory assumes a clear link between increased local production and exports, literature has shown that, in reality, there might be no automatic link between these increases and growth in local production. As Shafaeddin<sup>18</sup> points out, ‘the expansion of exports does not necessarily indicate the growth in production’. This paradox emanates from the presence of enclave FDI. Thus, unless a regulatory framework is implemented in developing (SADC) countries to link the tradable sector with local firm production, the chances are higher that international markets will remain the preserve of enclave FDI and that such markets will be permanently beyond the scope of domestic firms.<sup>19</sup>

### *Foreign and domestic monopolies*

In the absence of relevant investment policies and regulations, competition between large foreign firms and small domestic firms will result in the latter firms either disappearing or being swallowed by the big foreign firms; the end result being the creation of new foreign monopolies. Lall<sup>20</sup> alludes to the fact that ‘where countries have very different structural abilities to cope with free competition; a level playing field is to result in continuing and growing inequalities’.

### *Assumed technology transfer*

Trade liberalisation is assumed to be accompanied by technology transfer to domestic firms (of the hosting developing countries), which is expected to foster human, technological and administrative domestic capabilities.<sup>21</sup> This assumption may not, however, materialise or may have very limited positive impacts owing to inadequate technology or poor domestic capabilities in most ACP (African, Caribbean and Pacific Group of States) countries. Also, the fact that it is not generally in the interests of FDI’s transnational companies’ (TNCs) economic interests to conduct research and development (R&D), design and marketing in developing host countries, it follows that TNCs will be reluctant to promote such transfers.<sup>22</sup> Thus, at the end of the day, without proper regulations to tailor FDI with technology transfer, SADC countries may not be able to gain substantially from the investment activities of TNCs.

The purpose of intra-regional trade liberalisation is to facilitate trade within a regional economic space, and through enhanced trade opportunities to elicit firm-level decisions to expand productive capacity. Such expansion of productive capacity through various modalities of investment can have important implications for the development of markets and market processes, resulting in robust, sustainable regional development.<sup>23</sup>

Inconsistencies between macroeconomic policies and trade regimes might undermine liberalisation. It is important, therefore, to note that regional trade liberalisation on its own without complementary economic reforms (fiscal, monetary, industrial, exchange rate adjustments) and appropriate income redistributive mechanisms at national level does not automatically translate into economic growth and poverty reduction. Trade liberalisation undertaken as part of an economic good governance package

on a predictable basis is often related to economic growth and poverty reduction. SADC governments must, therefore, adopt national macro and micro policies that are consistent with promoting trade and investment.

## **Analytical approach and framework**

The study uses a multipronged methodology. Primary and secondary data and appropriate statistical and analytical tools are used. Using both static and dynamic approaches, the study provides empirical evidence on the link between FTA and poverty reduction. It outlines the essence of trade liberalisation, the transmission mechanism and causal direct and indirect links between trade liberalisation, economic growth and poverty reduction. The dynamic approach takes into account the inter-linkages of free trade and other variables, namely, investment flows, market structures, consumption and production responses, and rigidities and others.

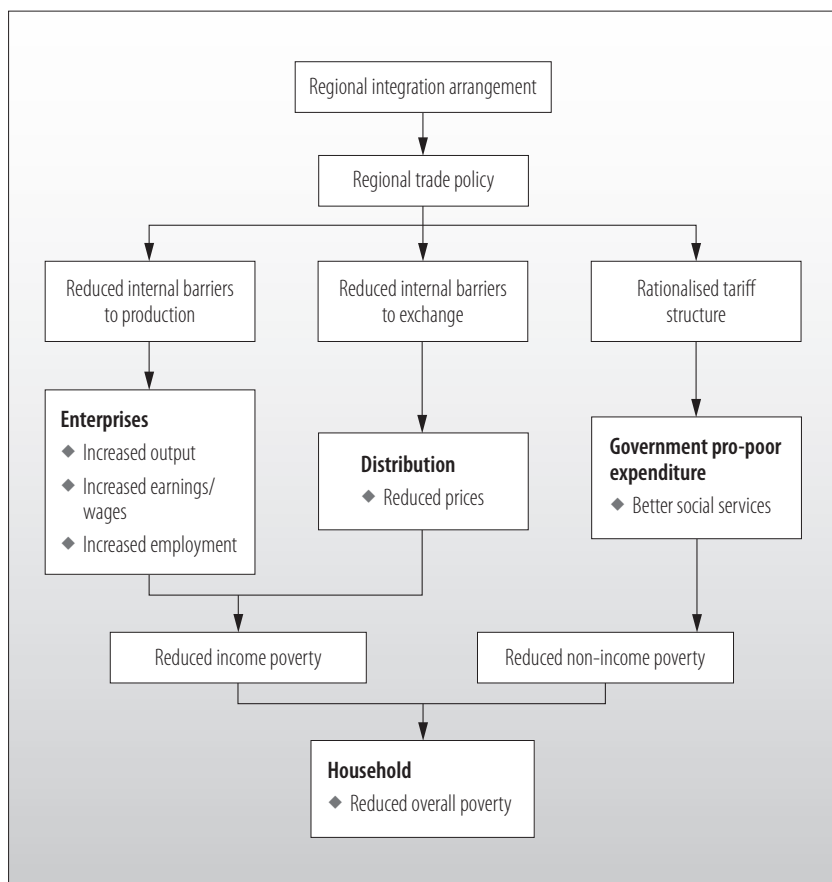
The study uses specific examples of trade patterns of pro-poor consumption and production baskets. It presents cases of high impact interventions on poverty at macro, meso and micro levels, and cases of very low impact poverty interventions are also presented. The main focus is on tracing and analysing the policies necessary for supporting the direct and indirect linkages between trade liberalisation, economic growth and poverty reduction.

Specific country case studies covering five least developed countries (LDCs) – Angola, Lesotho, Malawi, Mozambique and Zambia – plus Zimbabwe, and in particular examples of the impact of liberalisation of the maize trade, are used to demonstrate the impact of trade liberalisation in SADC on poverty. Both high and low impact interventions are explored and appropriate recommendations provided.

The analytical framework of the study is presented in Figure 1.1.

## **Primary and secondary data**

This study uses the country case studies to varying degrees to benefit from the real-life experiences generated by the primary data collection. A total of 300 questionnaires (50 for each of the six countries in the sample) were sent out and a total of 78 questionnaires were completed and returned. The main areas of focus in the primary data collected include:

**Figure 1.1:** *Linking SADC regional integration and poverty reduction*

Source: Adopted from ESRF (2006), *A background paper for Tanzania's case study of the CUTS Project on Trade, Development and Poverty (TDP)*

1. National poverty reduction programmes
2. National trade liberalisation under SADC
3. National experience with trade liberalisation under autonomous trading arena, for example the World Trade Organization (WTO), the Southern African Customs Union (SACU), the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA)
4. National FTA experience and demand response
5. National FTA experience and supply response
6. National market structures and competitiveness
7. Key national challenges in realising the benefits of SADC FTA

8. High impact national poverty reduction interventions
9. Recommendations to enhance the implementation of the SADC regional integration agenda to eradicate poverty

To supplement the primary data, the following key secondary documents were also provided:

- UN documents on the Millennium Development Goals (MDGs)
- RISDP
- Implementation framework for the RISDP
- RISDP review process and reports
- Trade Protocol Implementation Review Studies
- Various SADC documents on FTA
- Poverty Reduction Strategy Papers (PRSPs) for all SADC countries
- National reports on poverty eradication strategies
- SADC conference on poverty eradication reports
- Trade statistics, intra-SADC and extra-SADC trade

### Pro-poor consumption and production baskets

The **pro-poor consumption basket** has been defined as including maize, cooking oil, sugar, soap and clothes. These five commodities are common in all food baskets across the region. They are not, however, in any way the only relevant ones in the pro-poor consumption bundle. They have been used here because they are the ones on which export and import data are readily available in the SADC trade database. Other commodities and services, such as health and water, do have poverty reduction implications, but the impact on them through trade liberalisation is indirect.

The **pro-poor production basket** consists mainly of food, primarily maize. In order to assist the poor in the production of food and other basic necessities, there is a need to provide the poor with the requisite finance or inputs. Microfinance provides one channel through which vulnerable groups could be empowered so that they can participate in trade, which enhances growth and subsequently reduces poverty. Production and trade at the micro level could be facilitated by formulating appropriate policies that increase economic development by improving income-generating activities and employment creation. Microfinance institutions have the

potential to stimulate the growth of the micro-enterprise and the small and medium enterprise (SME) sectors.

### Production structures and competitiveness

The formal production structures in the SADC region are imperfect, oligopolistic and uncompetitive. SMEs face serious and numerous problems in terms of participating both in the national and regional markets. However, by opening up markets the FTA provides the potential for transforming closed production structures to become more regionally competitive. For this to occur, liberalisation needs to be accompanied by good macroeconomic policies, institutional market reforms and good infrastructure facilities. Researchers identify weak infrastructure, poor trade facilitation services, and inadequate physical and human capital as impediments to African competitiveness and the development of its export sectors.

The starting point was to review all the relevant literature on the SADC FTA and poverty reduction, including nationally, with a special focus on six country case studies. The study attempts to provide empirical evidence on the link between FTA and poverty reduction. Using various regional trade concentration indices (the regional orientation index and the trade intensity index reveal comparative advantage and inter-industry trade ratio), the study explores the dynamics of trade flows under the SADC FTA in pro-poor commodities, traces its direct and indirect linkages to economic growth, and its impact on poverty. It uses both the static (*ceteris paribus*) and the dynamic approaches. The latter is useful as it takes into account the inter-linkages of FTA and other variables, namely investment flows, market structure, production response and other rigidities.

Accordingly, the study explores the static and dynamic impacts of the FTA.

#### ■ **Static effects:**

##### ■ *Production effect*

In a closed economy, relatively inefficient domestic producers supply fewer units of the product. In a free trade area, the resource misallocation associated with the presence of the tariff disappears.

- *Consumption effect*

As existing consumers purchase the import substitute at a lower price, there is a net gain in consumer surplus. The estimation of these 'deadweight gains' has been attempted in most studies on the consequences of tariff liberalisation.

- **Possible dynamic effects:**

- *Economies of scale*

The widening of markets that follows from trade liberalisation can result in increased opportunities for exploiting scale economies, with larger output leading to reductions in unit cost. In competitive markets, such reductions are passed on to consumers, resulting in gain from consumption and production effects as prices fall.

- *Efficiency*

In the absence of trade barriers, the widening of markets results in greater competition, which in turn results in greater efficiency. This generates further reductions in unit costs and higher quality products.

## SADC trade concentration indices

To explore the link between SADC (FTA) and the incidence of reduced poverty focusing on the pro-poor basket discussed, the study uses the following trade orientation indices:

- Concentration indices in SADC exports
- Changes in the pattern of intra-industry trade
- Revealed comparative advantage indices
- Inter-industry trade ratio
- Changes in the degree of complementarity in SADC trade flows facilitated by the arrangements facilitated by the FTA

These various approaches help to answer the question as to whether or not the SADC FTA is appropriate for enhancing regional poverty eradication for southern Africa and to quantify potential social costs and benefits. A consistent change in the trade pattern over the years towards reduced concentration and increased complementarity in trade would imply that



there was an increase in trade as a result of the arrangements. An increase in trade would facilitate economic growth and hence reduce poverty. The main assumption is that countries are trading using SADC arrangements, namely the origin certificate, given that under SADC FTA about 85 per cent of trade was liberalised by 2008.

### Trade intensity

The trade intensity index takes the ratio of the share of a given country's exports to a partner to the share of the partner in global imports. If this ratio exceeds unity, the countries are said to have an above-average tendency to trade with each other. This ratio is inspired by the work of Braga, Safadi and Yeats,<sup>24</sup> who present an application within the context of regional trade arrangements.

### Regional orientation (RO) index

Another way of evaluating the importance of different commodities in SADC intra-regional trade is to use the RO index. The index shows the importance of different commodities in SADC intra-regional trade and provides useful insights on the potential of trade expansion in the pro-poor commodities. The RO index is defined as

$$R_i = \left( \frac{x_{ir}}{X_{ir}} \div \frac{x_{io}}{X_{io}} \right) \cdot 100$$

$x_{ir}$  = value of exports of country  $i$  in SADC intra trade

$x_{io}$  = value of exports of country  $i$  into third countries (outside SADC)

$X_{ir}$  = total value of SADC exports to within the region

$X_{io}$  = total value of SADC exports outside the region

This RO index is calculated as a ratio of the share of a product in exports to SADC to the share of the product in exports by SADC to other countries. The index takes values that range between zero and infinity. For a country that exports similar pro-poor commodities, both within SADC and to non-members, the value of the index will be unity. Higher values

for the index would reflect a greater tendency to export within SADC. Such an index has been calculated for African intra-trade by Yeats.<sup>25</sup> Here, we calculate the index for all the countries in the region whose data are available in full.

### Revealed comparative advantage

It is also possible to evaluate changes in revealed comparative advantage in production based on the opportunities for expanded intra-trade and link these with the SADC (FTA) arrangement. The results could then be used to assess the potential of such trade arrangements in reducing poverty. UNCTAD<sup>26,27</sup> and Amjadi, Reincke and Yeats<sup>28</sup> show that, in comparison with global exports, trade in foods has been predominant within SADC.

Using the revealed comparative advantage index in conjunction with the trade diversification and complementarity indices allows an assessment of the benefits from FTA prospects. Countries with different revealed comparative advantage (RCA) index profiles could mutually benefit from trade more than those with a high degree of similarity. Hence, it is important to determine the industries in which the SADC member countries have a comparative advantage and the associated products. For the pro-poor commodity bundle, this would encourage diversifying into the manufacture of commodities that add value. However, if the number of products is low, and for products where aggregate trade is relatively unimportant, the value of the index is low and the FTA arrangement is not likely to succeed.

In this case, the revealed comparative advantage is determined in the following way. Take the ratio of poverty-related goods to total country exports to SADC and divide it by the ratio of SADC exports of poverty-related goods within SADC to the total exports within SADC.

The RCA of country  $i$  for product  $j$  is measured by the commodity's share in the country's exports relative to its share in SADC trade. That is, if  $x_{ij}$  is the value of country  $i$ 's (global) exports of  $j$ , and  $X_{ij}$  is the country's total (global) exports, its revealed comparative advantage index is:

$$RCA_{ij} = \left( \frac{x_{ij}}{X_{ij}} \right) \div \left( \frac{x_{iS}}{X_{iS}} \right)$$

where the  $S$  subscripts refer to SADC totals.

RCA indices are usually computed only for processed goods or manufactures because trade in agricultural products is often distorted by export incentives or trade barriers, which distort the value of the index. Our pro-poor group of commodities includes maize and maize meal, cooking oil, soap, sugar and clothing, some of which are manufactured goods. The observed value of the index is less than unity when the country has a revealed comparative disadvantage in the product. It exceeds unity when the country has a revealed comparative advantage.

An ideal revealed comparative advantage index should be measured in an environment where there are no external trade constraints, such as tariffs and nontariff barriers, which distort individual country export profiles; or where domestic market interventions in the exporting country do not have an anti-export bias. Currently, there are relatively low trade barriers against exports from Africa.

### Intra-industry trade ratio

In order to assess the potential of increased intra-industry trade within SADC intra-regional trade, it is necessary to check the extent to which the existing structure has such potential.

Although pro-poor commodities tend to be similar such that intra-industry trade is not expected to be much, the different production opportunities that exist in different SADC countries warrant an examination of such trade. In the case of manufacturing, these opportunities would involve cross-country production sharing, which assists participating countries to integrate into regional markets. In terms of production of pro-poor commodities, the scope of such cross-country production is generally limited. Hence, policies that promote research in agriculture are required so that new production opportunities are created and intra-trade is expanded. This could be done by promoting the use of greenhouses in agriculture, creating production capacity in the food processing firms, and so forth.

An intra-industry trade ratio<sup>29</sup> is used to show the extent of such trade within the pro-poor group of commodities. For a single commodity the ratio is defined as

$$IIT_{js} = 1 - \frac{\sum_i \sum_j \sum_s |X_{ijs} - M_{ijs}|}{\sum_i \sum_j \sum_s (X_{ijs} + M_{ijs})}$$

where  $X_{ijs}$  represents the exports of products from industry  $i$  from country  $j$  to SADC  $s$ , and  $M_{ijs}$  represents the imports of products from industry  $i$  by country  $j$  from SADC  $s$ .\*

The value of the index lies between zero and infinity. Large values indicate a greater degree of intra-industry trade, while higher intra-industry trade ratios suggest that there is greater scope for realising gains from specialisation in differentiated products.

### Hypothesis

Based on this theoretical and empirical evidence, the following four main hypotheses were made.

1. SADC FTAs will impact positively on poverty reduction on condition that pro-poor goods are included in the basket of goods for liberalisation, and vice versa.
2. Owing to tariff elimination, the SADC FTA will lead to higher efficiency, reduced costs, lower prices and increased consumer welfare, which is poverty reducing.
3. Owing to the inherently uncompetitive SADC market structure characterised not only by a plethora of non-tariff barriers but by the domination by a few market players, both in the supply and the demand chains, the benefits of freeing trade are minimised and not passed on to consumers.
4. Regional trade liberalisation on its own without complementary economic reforms and appropriate income redistributive mechanisms at national level does not automatically translate into economic growth and poverty reduction, and vice versa.

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\* We have used the SADC alternative in order to reduce the number of permutations for this exercise.

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# 2

## **Southern Africa and Contemporary Global Economic Environment and Challenges**

Moses Tekere

### **Multiple global crises and their impact on poverty in Southern Africa**

#### **Global financial crisis**

THE FINANCIAL CRISIS IS THREATENING TO TURN BACK THE CLOCK ON THE progress achieved during decades of reforms that have geared economic policy toward ensuring that Africa becomes a more attractive destination for private capital.<sup>1</sup> The global financial crisis, which as many believe has also turned into a global economic, social and developmental crisis, with its channels including the decline in most commodity prices and tighter credit, among others, has significantly worsened the economic outlook for Africa.<sup>2</sup> Because of this current financial and economic crisis, the drivers of Africa's recent growth performance have been affected and, as such, demand for and prices of African commodities are falling, capital flows are declining, and the promised increased aid has not materialised.<sup>3</sup> According to the World Bank,<sup>4</sup> the impact of the global financial crisis and ensuing recession on Africa will be threefold. First, a slowdown in private capital flows will adversely affect economies that had been relying on these flows to finance much-needed investment, particularly infrastructure investment. Second, commodity prices are falling, which hurts African exporters, although it helps importers. Third, remittances to Africa, which run at about US\$15 billion a year, and foreign aid are likely to be affected.

The African Development Bank's (AfDB) (2009)<sup>5</sup> projection shows that Africa is expected to grow at a low rate of 3,2 per cent in 2009, down from 5,75 per cent in 2008 and 6 per cent in 2007. Preliminary projec-

tions show an expected loss of 3,7 per cent of growth rate for oil exporters in 2009 and a 1 per cent decline in growth for oil-importing countries. Regarding trade, the export growth rate is expected to drop by 7 per cent and the import growth rate will decline by 4,7 per cent, resulting in a deterioration of commercial balance. Africa's problem is that its exports are largely to developed countries that have been affected the most by this crisis, and have thus a reduced demand for commodities. According to World Trade Organization (WTO) Director-General Mr Pascal Lamy, Africa's strategy should be to fight to 'keep markets open and to keep opening markets', while expanding intra-African trade to reduce dependence on its trade with industrialised countries.

### Energy crisis

The SADC region has been affected by global energy scarcity at different levels. For instance, while SADC net oil importers were severely affected by the 2006 to 2008 upsurge in oil prices that reached as much as US\$145 per barrel, the net oil exporters in the region enjoyed a rapid increase in export incomes. Since mid 2008, when the current global economic crisis set in, fortunes have switched as the prices of oil fell to as low as US\$40 per barrel, bringing much relief to net importers but at the same time hurting net exports.

Electricity shortages cut across the region and load shedding has become more frequent, thus affecting productivity. Apart from oil, statistics indicate that in SADC the majority of people still rely on traditional biomass fuels, that is, they have no access to electricity. For instance, in 2005, nearly two-thirds of Africa's 891 million people had no access to electricity.<sup>6</sup> Given that nearly every aspect of development, from poverty reduction to improving healthcare, requires reliable access to modern energy services, this energy crisis presents a further constraint to SADC's poverty reduction agenda.

The global energy crisis may continue unless viable alternatives are created. This gloomy scenario is underpinned by forecasts of the International Energy Agency (IEA), in which the world's energy needs are expected to be 50 per cent higher in 2030 than they are today. On the other hand, the fossil fuels on which the world still depends are finite and far from environmentally friendly. Thus, when development needs remain unad-



dressed as a result of the energy problem, the resulting misery often leads to conflict and violence, which in turn affect poverty reduction and development efforts.

### **World food prices and their impact on poverty**

The rapid increase in the prices of cereals (maize, rice, wheat, corn and other food staples) has sent a shock wave through poor households in the SADC region and the world over. These rapid food price increases are a result of a number of factors, including rising demand in large developing countries, especially in countries like China and India that have experienced growth in household incomes; neglect of agriculture in many SADC and other developing countries over recent decades in favour of mining; increased costs to farmers resulting from high fuel and fertiliser prices, chemicals and seeds; increased demand for cereals in biofuel industries; competition from biofuels for land use; supply disruptions caused by drought in major agricultural exporting countries; speculation; and an asset bubble in commodity markets.<sup>7</sup> Changes in food availability, rising commodity prices and new producer-consumer linkages have crucial implications for the livelihoods of the poor and food-insecure people the world over.<sup>8</sup>

Generally, the impact of food price increases on poverty differs among countries and within countries, depending on whether the poor in that country or region are net sellers or net buyers of food; and also on whether they depend on the agricultural sector for wages or other sources of income. Nevertheless, for most African countries, rising prices have pushed many poor households into deeper poverty and have increased demands on food programmes. Food and Agriculture Organization (FAO) estimates indicate that the largest increases in the number of undernourished people as a result of rising food prices have taken place in Asia and sub-Saharan Africa, the two regions which, combined, already accounted for 750 million people, or 89 per cent of the hungry people in the world, in 2003 to 2007. The FAO estimates that rising prices have plunged an additional 41 million people in Asia and 24 million in sub-Saharan Africa below the hunger threshold. Also, a study by Wodon and Zaman<sup>9</sup> shows that rising food prices are likely to lead to higher poverty in sub-Saharan Africa as the negative impact on net poor consumers outweighs the benefits to poor producers. Because of these food price increases, the achievement of the

internationally agreed hunger-reduction goals within the Millennium Development Goals (MDG) framework in the few years remaining to 2015 is becoming an enormous challenge.

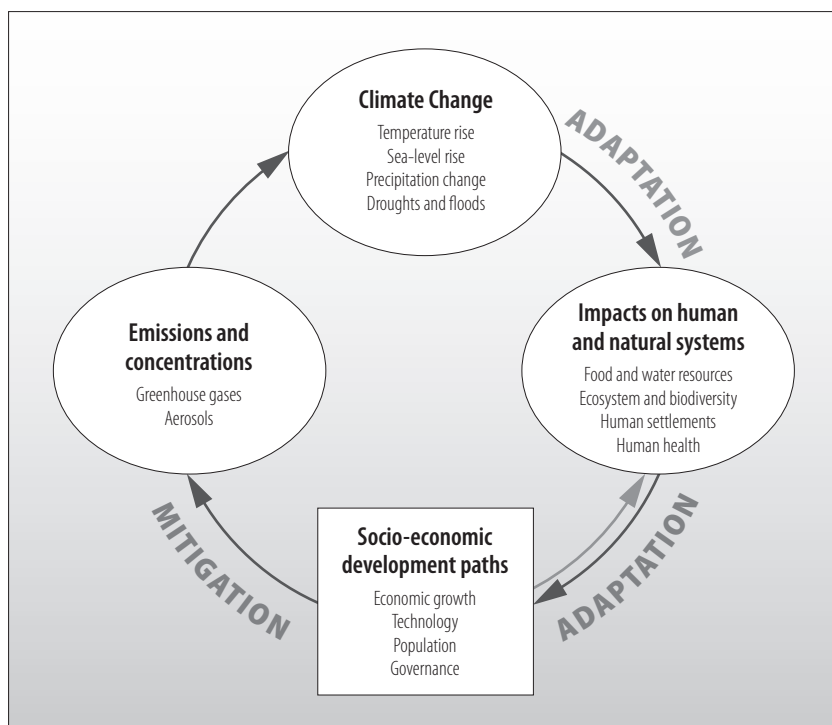
Although economic growth and regional trade integration are considered necessary conditions for poverty reduction, cross-country analyses conducted across the developing world suggest that economic growth and regional integration alone, in the absence of specific measures to combat hunger, may leave large numbers of hungry people behind for a long time, particularly in rural areas.<sup>10</sup> Thus, other conditions such as proper income redistribution are needed as ancillary policies to ensure poverty reduction alongside economic growth and regional integration.

### **Climate change and its impact on poverty in the SADC region**

Alongside the multiple global crises is also the issue of climate change, which is defined as the threat of increased global warming associated with the release of greenhouse gases (GHGs) into the upper atmosphere. It can also be viewed as long-term fluctuations in temperature, precipitation, wind and other elements of the earth's climate system. The major sources of these GHGs are energy, transport and industry.<sup>11</sup>

As shown in Figure 2.1, climate change is noted by temperature rise, sea level rise, precipitation change, frequent and severe droughts, and floods becoming more and more widespread. Emissions and concentration of aerosol gases present challenges to agriculture and food insecurity, as well as human settlements and human health (e.g. increase in malaria epidemics), and in turn lead to socio-economic hardships.

The SADC region has recorded six very warm seasons since 1987, followed by increased frequency of droughts (1990–1991, 1991–1992, 1992–1993, 1993–1994, 1994–1995, 1997–1998, 2001–2002, 2002–2003, 2004–2005, 2006–2007), resulting in massive drops in crop yields. There has also been tropical cyclone activity, causing serious flooding, mostly in coastal countries. These unusual weather patterns with periods of drought and flooding have destroyed crops, livestock and settlements, displaced people and caused poverty. In addition, trans-boundary animal diseases have jeopardised the wellbeing of people in the region. SADC has come up with response plans to monitor the spread of the diseases and has established an early warning system.

**Figure 2.1:** *Climate change*

Source: Chasi, 2008

Agriculture in the SADC region remains extremely vulnerable to climate variability and change. The area suitable for rain-fed agriculture has shrunk. Smallholder farmers in marginal areas are the most vulnerable.<sup>12</sup> Such conditions increase food security risks to the households as maize yields decrease considerably as a result of extreme climate changes. Rangelands become susceptible to more rapid degeneration of ecosystem properties, and the evergreen forests of the SADC region may be reduced to seasonal forests, whilst drier and semi-arid areas may turn into desert.

## Global and regional trade liberalisation arrangements

### WTO–Doha Development Agency (DDA) negotiations

All SADC countries except Seychelles are members of the WTO and have been implementing trade liberalisation under the WTO since 1995.

However, the benefits of trade liberalisation have been limited owing to a number of factors, such as limited supply capacity; trade distortive subsidies applied by developed countries; sanitary and phytosanitary (SPS) requirements; high transactions costs; trade policy reversals and inconsistencies; unfavourable economic policy environment; terms of trade; and too much focus on special and differential treatment, among others. Various studies have therefore concluded that benefits from global trade liberalisation being skewed in favour of developed countries over developing countries is the reason for the current impasse in the multilateral trade negotiations.<sup>13,14,15,16,17</sup>

Poverty in the developing world is underpinned by agricultural production expansion and improvement in domestic agricultural markets. Nevertheless, under the current WTO–DDA negotiations, there are still a number of issues that will affect the ability of developing country governments to achieve these goals and manage food price changes in the future. The domestic and export subsidies provided by some wealthy countries (including the US and the EU) to their farmers have the effect of inducing greater supply than market prices would warrant, and allowing excess production to be sold on world markets at prices below production costs.<sup>18</sup> Although this might have reduced global food prices over recent decades, and thus be considered a positive incident by some net food importing countries, in terms of long-run development, this will hurt farmers in developing countries, who will not be able to compete with subsidised exports in global markets.

In the Doha Development Agency, negotiations on agriculture are addressed across three broadly inclusive fronts, normally referred to as the three pillars: export competition, domestic support and market access. The DDA mandate for agriculture calls for comprehensive negotiations aimed at substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. The WTO negotiations are supposed to provide a framework for give and take to help foster mutual agreement. To this end, the Doha Round represents an unusual opportunity for addressing most policy-induced distortions in international agricultural markets.

Although developing countries consider the DDA as a possible panacea for their poverty and underdevelopment, under the assumption that the inclusion of a development-friendly multi-trading system will help them

conquer poverty sooner, they still maintain their position in the agriculture negotiations, namely that agricultural subsidies applied by developed countries should be removed.

### **Cotonou Partnership Agreement (CPA) and economic partnership agreement (EPA) negotiations**

The main objective of the CPA between the EU and the African, Caribbean and Pacific Group of States (ACP), according to Article 1, is that of ‘... reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy’. The CPA, like its predecessor Lomé Conventions, stresses the importance of supporting ACP states’ economic development while at the same time allowing ACP countries to own their development agenda by allowing them to decide and choose their policies. Since 2002, SADC, together with other ACP regions, has been negotiating EPAs with the EU, whose main objective is fostering development and regional integration.

Literature generally agrees that, as a result of supply-side constraints, adverse terms of trade and increased international competition, the Lomé Conventions and the CPA have failed to assist the ACP countries in terms of poverty reduction, as the share of exports in the European market declined from five per cent in 1980 to less than three per cent by 2006. At the same time, the ability of the EPA to contribute towards poverty alleviation in the SADC region is hinged on its ability to provide developmental assistance to the region. Nevertheless, in the current ongoing EPA negotiations, developmental issues remain a contentious debate.

### **African Growth and Opportunity Act (AGOA)**

The US’s African Growth and Opportunity Act promulgated by the US Congress in May 2000 provides market access preferences into US markets for 37 sub-Saharan African countries (including most SADC countries) by ensuring duty – and quota – free access on over 7 000 product lines until 2015. AGOA was built on existing US trade policies by expanding benefits previously available via the Generalised System of Preferences

(GSP). The combined AGOA/GSP provisions cover 7 000 product tariff lines, of which AGOA accounts for 1 800. These lines include apparel and footwear, wine, certain motor vehicle components, a variety of agricultural products, chemicals, steel, and so forth.<sup>19</sup>

The impact of AGOA on poverty reduction in benefiting countries has been found to be generally positive.<sup>20</sup> Most beneficiary countries from the SADC region have witnessed increased exports to the US under AGOA, with those increases translating into increased employment and income in some of these beneficiary countries. Also, the ability of countries benefiting under AGOA to freely cumulate their production has added an impetus towards SADC's regional integration by enhancing deeper and increased intra-regional trade.

## Regional trade arrangements

### Common Market for Eastern and Southern Africa (COMESA)

COMESA comprises 19 countries from North, East and Southern Africa. Nine COMESA members belong to SADC, namely Angola, the Democratic Republic of the Congo (DRC), Malawi, Mauritius, Namibia, Seychelles, Swaziland, Zambia and Zimbabwe. The main objective of COMESA is strengthening trade and economic and development cooperation between its member states.

Accordingly, COMESA member states have agreed on the need to create and maintain

- a full free trade agreement (FTA) and the removal of all tariffs and non-tariff barriers
- a customs union with a common external tariff (by 2008)
- free movement of capital and investment to ensure the creation of a favourable investment climate
- establishment of a cross-border payments and settlement system and a political risk guarantee system
- establishment of a common monetary union with a common currency
- adoption of common visa arrangements, including the right of establishment and residency.

The establishment of an FTA in 2000 was a prelude to the establishment of a customs union by 2009. By the end of December 2008, 13 countries achieved a reduction of 100 per cent on intra-COMESA tariffs and other countries had achieved between 60 and 70 per cent of intra-COMESA tariffs. Southern African Customs Union (SACU) members in COMESA were given an exemption from tariff reductions and have been granted a special dispensation, giving their exports duty free access to other COMESA members' markets on a non-reciprocal basis. Of its 19 member states, six are also members of SADC (Madagascar, Malawi, Mauritius, Seychelles, Zambia and Zimbabwe) and full members of the COMESA FTA. The FTA aims to guarantee the free movement of goods produced within COMESA and the removal of all tariffs and non-tariff barriers. It has also been agreed to establish a customs union under which goods imported from non-COMESA countries will attract an agreed single tariff in all COMESA states.

The COMESA region is experiencing strong positive economic development. Significant liberalisation of the economies has been achieved. Compared to the past decade, there are no more strong economic and political differences – factors that have made it easier for the countries to move faster in implementing their FTAs. COMESA countries implemented an across-the-board tariff reduction programme applied to all goods which conformed to specific rules of origin. They have agreed on a single rate tariff reduction timeframe, as shown in Table 2.1.

**Table 2.1:** *COMESA tariff reduction schedule*

|             | October<br>1993 | October<br>1994 | October<br>1996 | October<br>1998 | October 2000,<br>FTA-date |
|-------------|-----------------|-----------------|-----------------|-----------------|---------------------------|
| Reduction % | 60%             | 70%             | 80%             | 90%             | 100%                      |

Source: COMESA Secretariat

These tariffs were applicable on imports of COMESA origin as defined by the protocol on the rules of origin. COMESA aims at being a customs union by December 2009, and the common external tariff (CET) has been agreed to as a four-band tariff structure of 0–5, 15 and 25 percentages on capital, raw materials, intermediate goods and finished goods respectively. On the introduction of the CET, member states would initially continue

to collect customs duties at the ports of entry into the country of final consumption until the best conditions – which will permit the adoption of a centralised administration of revenue collection and sharing mechanism – are in place.

The region aims to establish a CET to ensure that its industries become regionally competitive, first as a way of enabling them to mature and compete on the international market. The reduction of tariffs and non-tariff barriers in COMESA has enhanced trade and competition. In a bid to move toward a common external trade policy, the COMESA region has come up with a gamut of measures being implemented on the simplification and harmonisation of trade documents and procedures. These include the harmonised commodity description coding system; a common valuation system; a road customs transit document; a COMESA customs declaration document; the COMESA yellow card scheme, and others. COMESA has also established a common tariff nomenclature (CTN) based on the HS 1996 for COMESA countries. The adoption and implementation of the CTN is a prerequisite for the implementation of the CET, which has been harmonised at the eight-digit level.

### **Southern African Customs Union**

SACU was established in its present form in 1969 and comprises South Africa and the BLNS countries (Botswana, Lesotho, Namibia and Swaziland). SACU is wholly contained in SADC. It provides for the duty free movement of goods and has a CET on goods imported into the union from the rest of the world. The countries control a common revenue pool, which is administered by South Africa and distributed to the member countries on the basis of a specific formula that has been agreed upon by the member countries.

All SACU member countries, with the exception of Botswana, are in the common monetary area. The Rand Monetary Area (RMA) Agreement was signed in December 1974 and it became a common monetary area (CMA) in 1986. The CMA provides for the free flow of money between the four countries, as there are no exchange controls between the four economies. This gives SACU a much higher degree of integration than almost all other African regional integration arrangements. Pearson<sup>21</sup> argues that the viability and sustainability of SACU without the revenue-sharing



mechanism which favours the BLNS countries (representing in effect a net transfer of revenue from South Africa to the BLNS countries) is open to question.

Revenue from SACU's customs and excise duties is pooled and then distributed to BLNS countries according to a complicated formula, with South Africa receiving the remaining income after the BLNS countries have been allocated their fixed share. This has been a difficult issue for SACU. The relations between the BLNS with South Africa on the one hand, and South Africa's relations with the EU under the new agreement on the other, are a third piece of the regional and preferential trade puzzle. The evolution of this multifarious set of relations could create a complicated structure of tariffs, twisted preferences and rules of origin that could well lead to future trade distortion.

### **East African Community (EAC)**

The EAC, comprising Kenya, Tanzania and Uganda, with its Treaty signed in 1999, is a rejuvenation of the economic cooperation agreement which broke up in 1977. Rwanda and Burundi joined in 2007. The Treaty aims at a progressive regional integration process, starting from the formation of a customs union within four years of the signing of the Treaty, a common market, a monetary union and ultimately a political federation. The Treaty covers many facets, namely, cooperation in political, economic, social and cultural fields, research and technology, defence, security, and legal and judicial affairs.

Under a customs union, Tanzania and Uganda will trade at zero rates, and exports from both of them to Kenya shall enjoy duty free market access. However, exports from Kenya to both Tanzania and Uganda are classified into three categories. Category one enjoys duty free entry; category two is subjected to gradual duty elimination; while category three is a permanent negative list, usually reflecting international obligations for environmental control, health and security concerns.

To address issues of overlapping membership, the tripartite Summit of the EAC, COMESA and SADC, held in October 2008 in Uganda, decided to create an FTA covering the three regional organisations.

## Conclusions

The main conclusions from this analysis are the following:

- The SADC region has a litany of poverty statistics – low Human Development Index (HDI), high Human Poverty Index (HPI), high HIV infection, food insecurity; however, recent economic growth is changing the fortunes of the region.
- Positive economic growth recorded over the last decade has helped address poverty in most SADC countries. Accordingly, many of the national poverty reduction programmes implemented over the last decade, mostly by the least developed countries (LDCs), have yielded positive results.
- The current global crises, namely energy, food and commodity prices and the financial crisis, pose serious challenges to the SADC region in terms of meeting its objectives under the Regional Indicative Strategic Development Plan (RISDP), and in particular achieving poverty reduction.
- Rules and disciplines of regional (COMESA, EAC, SACU, ACP-EPA, AGOA,) and multilateral trade arrangements (WTO), as well as bilateral agreements and autonomous structural adjustment programmes supported by the IMF and the World Bank have, so far, largely guided the trade liberalisation policies of SADC countries.

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# 3

## Poverty Dimensions and Reduction Strategies in the SADC Region

Tanaka Mukura

### **SADC region: Economic growth indicators and poverty profile**

#### **A litany of poverty statistics**

POVERTY IN SADC MEMBER STATES REMAINS ONE OF THE GREATEST CHALLENGES the region is facing and, as such, member states lag behind in their implementation schedules to achieve the Millennium Development Goal (MDG) targets. The levels of poverty have remained high. About 32 per cent of the SADC population of approximately 245 million lives below the international poverty line of US\$1 per day, while about 70 per cent lives below the US\$2 per day international poverty line.<sup>1</sup> According to SADC, member countries continue to register poor socioeconomic conditions, rising inflation, lack of access to basic social services such as clean water, sanitation and health and lack of access to basic infrastructure. Furthermore, the region remains host to the highest number of people infected and affected by the HIV virus and other communicable diseases.

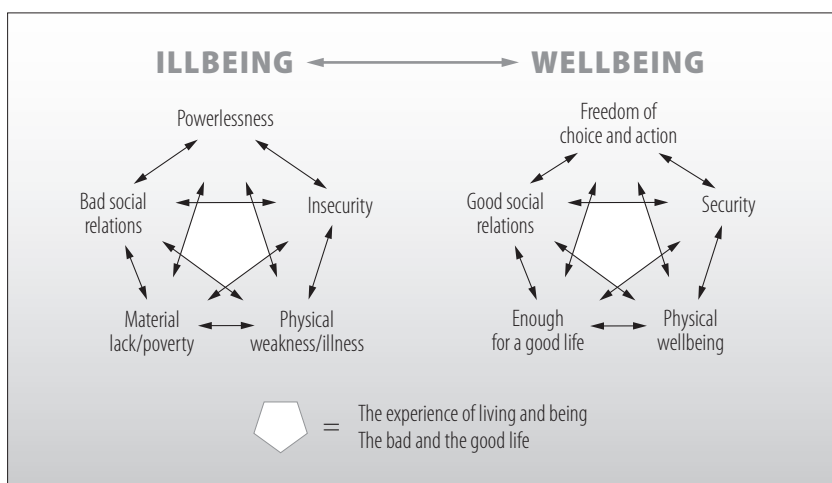
The causes of poverty in southern African countries can be grouped into two main categories, namely natural or manmade factors; or 'entrenched factors of poverty'. Natural causes include droughts and flooding, natural disasters such as hurricanes, earthquakes and agricultural cycles. These often have serious impacts for many families that rely on subsistence farming for survival. However, manmade factors such as warfare and civil unrest (in the cases of Mozambique, Angola and Zimbabwe), the colonial legacy of exploitation, corruption, social inequality (racism and treatment of women) and environmental degradation often have a more disastrous impact on livelihoods in southern Africa.

There is no universally accepted definition of poverty. It takes many forms, varying from one community to another, and as such has been described in many ways. It has been likened to ill-being, that is, hunger, sickness, failure to access health facilities, lack of accommodation, illiteracy, joblessness, lack of access to clean water, powerlessness, and lack of representation and freedom. Robert Chambers describes development in the context of the web of poverty's disadvantages and development as a 'good change' (Figure 3.1). Poverty levels are viewed through a variety of indicators which, among others, include real income per capita (relative poverty), the poverty line (absolute poverty), the Human Development Index (HDI), the Human Poverty Index (HPI), the Gini Coefficient Index of Income Inequality, the Lorenz Curve of Income Distribution, the Gender-related Development Index, the Gender Empowerment Measure, the Decile-Dispersion Ratio, the Participatory Wealth Ranking, the Housing Index, the Share of Income, and basic needs.

### Economic growth indicators

The SADC region has one of the lowest income levels in the world. Compared to developed countries, SADC average per capita income is 25 times

**Figure 3.1:** *Development as good change – from ill being to wellbeing*

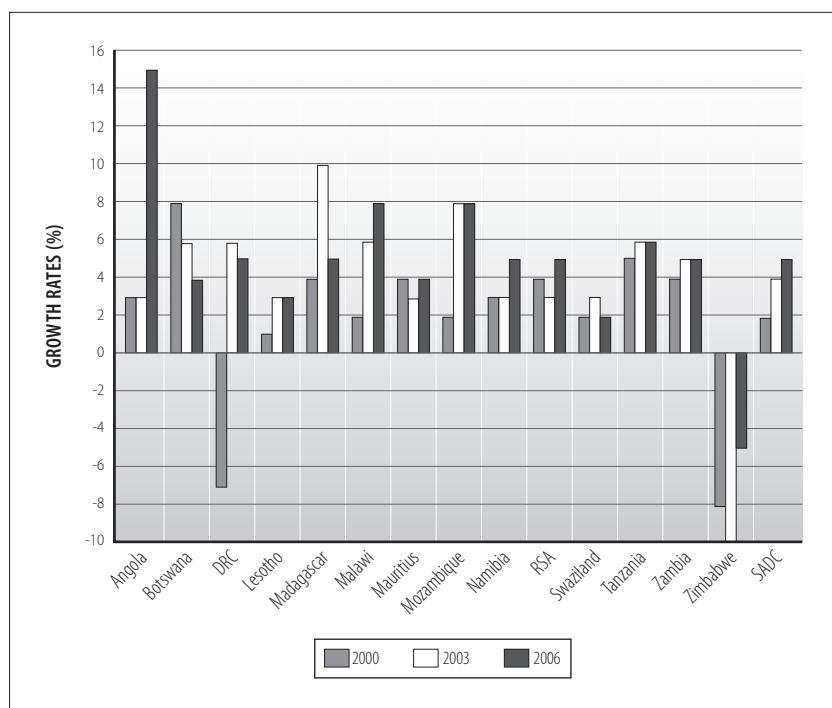


Source: Chambers (2006)<sup>2</sup>

below that of highly industrialised countries. However, the fortunes of the region are rapidly changing. Over the past decade, SADC countries have recorded high positive real GDP growth rates and GDP per capita (PPP in US\$), and declining inflation for all countries, excluding Zimbabwe. Economic growth was highest among the SADC least developed countries (LDCs). For example, Angola achieved the highest, a world record, economic growth rate of nearly 14 per cent from 2006–2008, while Mozambique, Malawi Madagascar and Tanzania all recorded growth rates in excess of five per cent. The more developed SADC countries, namely South Africa, Mauritius, Botswana and Namibia, also recorded moderate growth rates, while Zimbabwe was the only exception to this growth trend (Figure 3.2).

The following figures and table show the trends in real GDP growth rates, GDP per capita, income distribution and inflation trends for SADC member countries.

**Figure 3.2:** *Trends in real GDP growth rates in SADC countries*



Source: SADC and National Statistics, IMF IFS database

The economic indicators show positive real GDP growth rates and declining inflation in recent years for all countries excluding Zimbabwe, which continues to experience negative growth in real GDP and hyperinflation because of the economic challenges it is facing (Table 3.1). There has also been a general upward trend in GDP per capita (PPP US\$) for almost all countries.

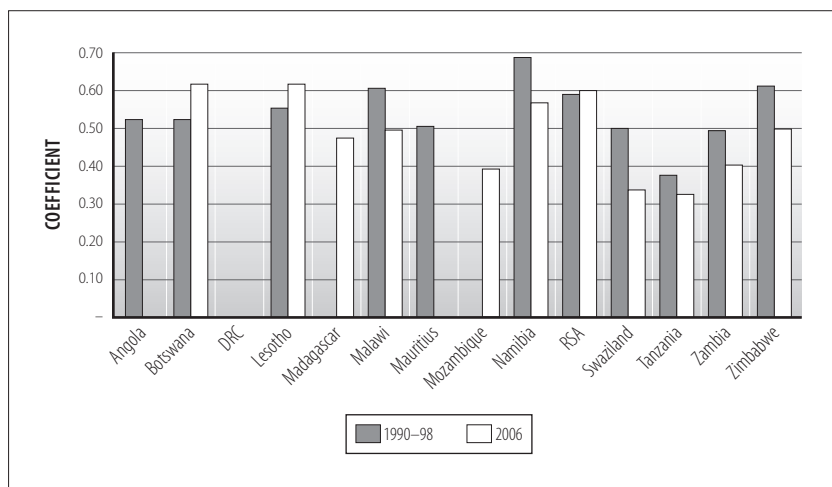
**Table 3.1:** *Trends in GDP per capita (PPP US\$) in SADC countries*

| Country    | GDP per Capita (PPP US\$) |       |        |        |
|------------|---------------------------|-------|--------|--------|
|            | 1995                      | 1998  | 2003   | 2005   |
| Mauritius  | 7 480                     | 8 312 | 11 287 | 12 715 |
| RSA        | 8 582                     | 8 488 | 10 346 | 11 110 |
| Swaziland  | 3 948                     | 3 816 | 4 726  | 4 824  |
| Namibia    | 5 307                     | 5 176 | 6 180  | 7 586  |
| Botswana   | 5 764                     | 6 163 | 8 714  | 12 387 |
| Lesotho    | 1 430                     | 1 626 | 2 561  | 3 335  |
| Zimbabwe   | 2 512                     | 2 669 | 2 443  | 2 938  |
| DRC        | 947                       | 822   | 697    | 714    |
| Zambia     | 733                       | 719   | 877    | 1 023  |
| Tanzania   | 461                       | 480   | 621    | 744    |
| Angola     | 2 590                     | 1 821 | 2 344  | 2 335  |
| Malawi     | 489                       | 523   | 605    | 667    |
| Mozambique | 644                       | 782   | 1 117  | 1 242  |
| Madagascar | –                         | –     | 809    | 923    |
| SADC       | 2 888                     | 2 663 | 3 809  | 4 467  |

Source: SADC Statistics, African Development Indicators, 2007/2008 World Development Report, UNDP

However, an analysis of the distribution of income in these countries using the Gini coefficient (Figure 3.3) shows wide income disparities in the countries with high GDP per capita (South Africa 0,61 in 2006, Botswana 0,63 in 2006), and more even distribution in countries with lower GDP (0,35 for Tanzania and 0,48 for Madagascar in 2006). This shows that whilst some countries have managed to increase their real GDP and real GDP per capita, a lot still needs to be done to address inequalities by making sure that growth is pro-poor and results in a more even distribution of income.



**Figure 3.3:** *Distribution of income (Gini coefficient) in SADC 1990–1998 and 2006*

Source: SADC and National Statistics, IMF IFS database

### SADC human development and poverty indicators

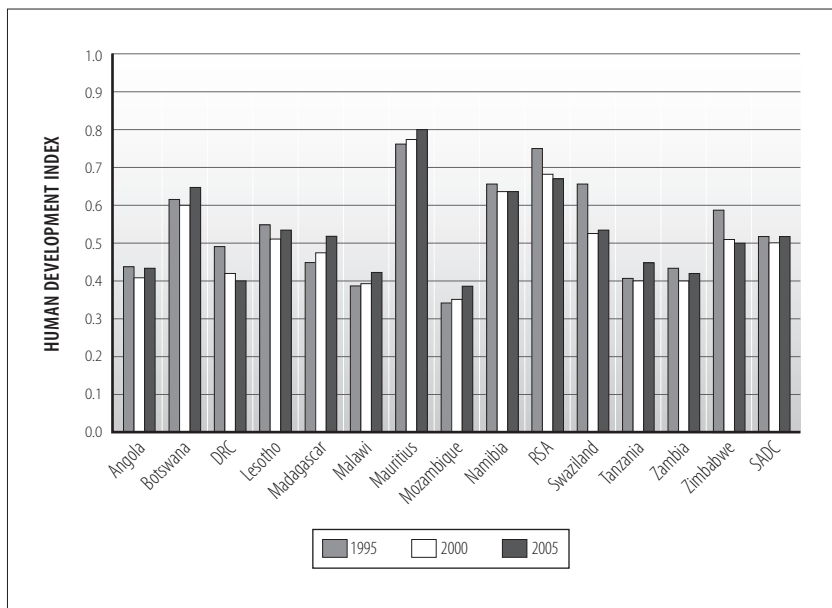
On the human development front, the region has not registered significant gains. The main obstacles retarding human and social development in the region include, but are not limited to, high levels of unemployment, persistent droughts, civil wars (DRC, Mozambique and Angola), prevalence of HIV/AIDS and other infectious diseases, poor pro-poor policies, poor governance, poor infrastructure and social amenities, disturbances in agriculture, and colonial legacies.

Figure 3.4 and the tables following show trends in some of the human development indices (education, health and gender) in SADC countries.<sup>3</sup> The trends show that overall, using the SADC average HDI, which falls in the middle human development category, the region has failed to register significant gains in human development. However, in terms of member states, there is a mixture of experiences. Using 2005 statistics, Mauritius has the highest HDI, followed by South Africa, and at the lower end are Mozambique and the DRC.

An analysis of trends in HDI shows that whilst some countries have been making significant gains in human development (Madagascar, Mozambique, Malawi), some countries, including those with middle income

status such as South Africa, have been experiencing declining human development (South Africa, Zimbabwe, DRC). This is also attested by the trends in HPI shown here (Figure 3.5).

**Figure 3.4:** SADC Human development indices 1995, 2000 and 2005



Source: SADC Statistics, 2007—2008 World Development Report, UNDP, SADC Regional Human Development Report, 2000

**Figure 3.5:** SADC Human poverty indices 1998, 2003 and 2005

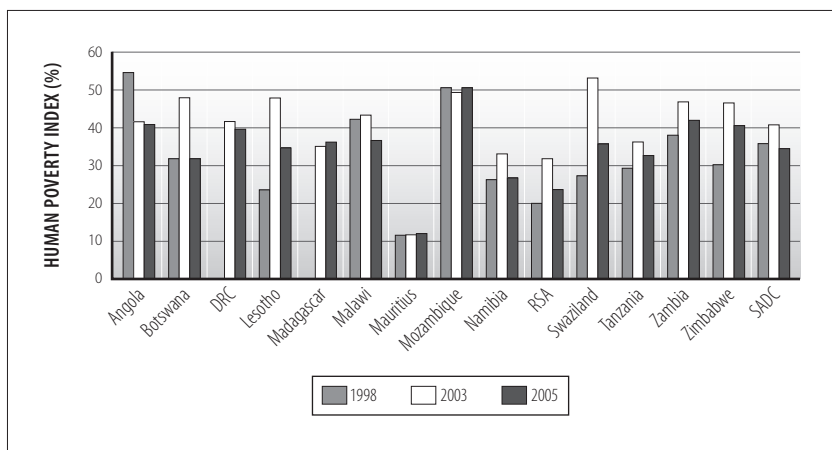


Table 3.2 shows world and SADC HDI rankings for SADC member countries using 2005 statistics. Only Mauritius falls into the high human development (HHD) category, whilst seven and six countries fall into the medium and low human development (MHD and LHD) categories, respectively.

**Table 3.2:** *HDI rankings for SADC member countries, 2005*

| Country    | World rank<br>(out of 177) | SADC rank<br>(out of 14) | Level of human<br>development |
|------------|----------------------------|--------------------------|-------------------------------|
| Mauritius  | 65                         | 1                        | HHD                           |
| RSA        | 121                        | 2                        | MHD                           |
| Botswana   | 124                        | 3                        | MHD                           |
| Namibia    | 125                        | 4                        | MHD                           |
| Lesotho    | 138                        | 5                        | MHD                           |
| Swaziland  | 141                        | 6                        | MHD                           |
| Madagascar | 143                        | 7                        | MHD                           |
| Zimbabwe   | 151                        | 8                        | MHD                           |
| Tanzania   | 159                        | 9                        | LHD                           |
| Angola     | 162                        | 10                       | LHD                           |
| Malawi     | 164                        | 11                       | LHD                           |
| Zambia     | 165                        | 12                       | LHD                           |
| DRC        | 168                        | 13                       | LHD                           |
| Mozambique | 172                        | 14                       | LHD                           |

Source: 2007/2008 World Development Report, UNDP

An analysis of the education profile in terms of adult literacy rates shows that although there has been an overall increase in the region's literacy rate and gross enrolment ratio, some member countries have experienced notable declines in their adult literacy rates (DRC from 77% in 1995 to 67,2% in 2005; Zambia from 78% in 1995 to 68% in 2005; Mozambique from 40% in 1995 to 38,7% in 2005) and gross enrolment ratios (Swaziland from 77% in 1995 to 60% in 2005; Namibia from 83% in 1995 to 65% in 2005; Zimbabwe from 69% in 1995 to 52% in 2005; DRC from 40% in 1995 to 34% in 2005; Malawi 76% in 1995 to 63% to 2005; and Angola from 30% in 1995 to 26% in 2005). The statistics indicate that there is still a lot to be done to increase gross enrolment in order to boost adult literacy rates in the SADC region.

In terms of health profile, it can be seen from Table 3.3 that SADC's life expectancy has been on the decline (from 52,49 years in 1995 to 48,1 years in 2005). This can be attributed to the prevalence of the HIV/AIDS pandemic and other communicable diseases – the spread of which member states have been battling to combat – and poor health facilities. Mauritius, Malawi and Tanzania are the only countries that have experienced increases in life expectancy, a trend that is also supported by relatively low and declining HIV prevalence rates in these countries.

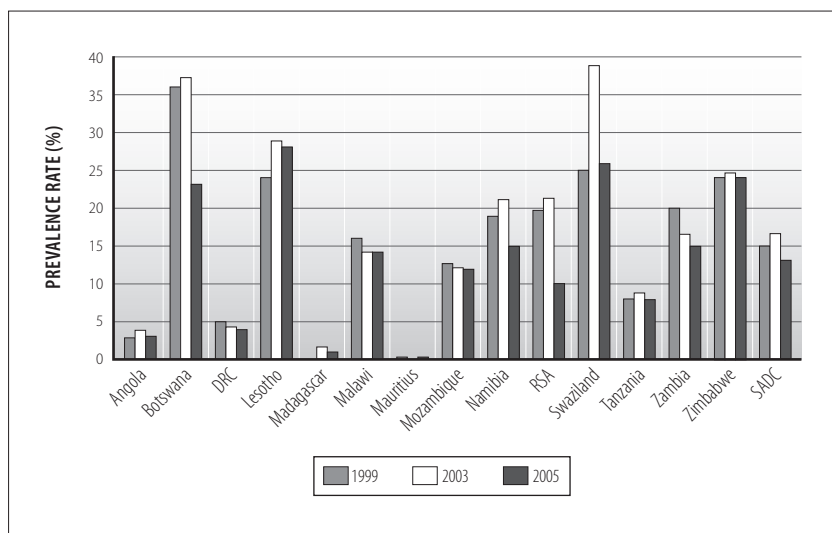
**Table 3.3:** *SADC trends in life expectancy at birth and under five mortality rates*

| Country    | Life expectancy at birth<br>(years) |      |      | Under-five mortality rate<br>(Per 1 000) |      |      |
|------------|-------------------------------------|------|------|------------------------------------------|------|------|
|            | 1995                                | 1998 | 2005 | 1995                                     | 2000 | 2005 |
| Mauritius  | 70,9                                | 71,6 | 72,4 | 22                                       | 19   | 17   |
| RSA        | 64,1                                | 53,2 | 50,8 | 70                                       | 73   | 70   |
| Swaziland  | 58,8                                | 60,7 | 40,9 | 120                                      | 128  | 122  |
| Namibia    | 55,8                                | 50,1 | 51,6 | 102                                      | 82   | 72   |
| Botswana   | 51,7                                | 46,2 | 48,1 | 91                                       | 89   | 76   |
| Lesotho    | 58,1                                | 55,2 | 42,6 | 124                                      | 111  | 104  |
| Zimbabwe   | 48,9                                | 43,5 | 40,9 | 110                                      | 104  | 98   |
| DRC        | 52,4                                | 51,2 | 45,8 | 199                                      | 217  | 202  |
| Zambia     | 42,7                                | 40,5 | 40,5 | 177                                      | 176  | 163  |
| Tanzania   | 50,6                                | 47,9 | 51,0 | 147                                      | 140  | 124  |
| Angola     | 47,4                                | 47,0 | 41,7 | 242                                      | 251  | 237  |
| Malawi     | 41,0                                | 39,5 | 46,3 | 211                                      | 167  | 141  |
| Mozambique | 46,0                                | 43,8 | 42,8 | 217                                      | 194  | 173  |
| Madagascar | –                                   | –    | 58,4 | 156                                      | 131  | 113  |
| SADC       | 52,9                                | 48,7 | 48,1 | 142                                      | 134  | 122  |

Source: African Development Indicators, 2007 – African Development Bank

There has been a general decline in SADC's under-five mortality rate, from 142 per 1 000 in 2005 to 122 per 1 000 in 2005. All countries except the DRC have managed to reduce their under-five mortality rates.

An examination of the HIV prevalence rates, shown in Figure 3.6, shows relatively low rates for Mauritius, DRC, Madagascar and Angola, and relatively high rates for other countries (more than 10%). Overall,

**Figure 3.6:** SADC trends in HIV/AIDS prevalence rates (adults aged 15–49 years)

Source: CIA World Fact book 2005 – people living with HIV/AIDS, UNAIDS Report on the Global HIV/AIDS epidemic, June 2000

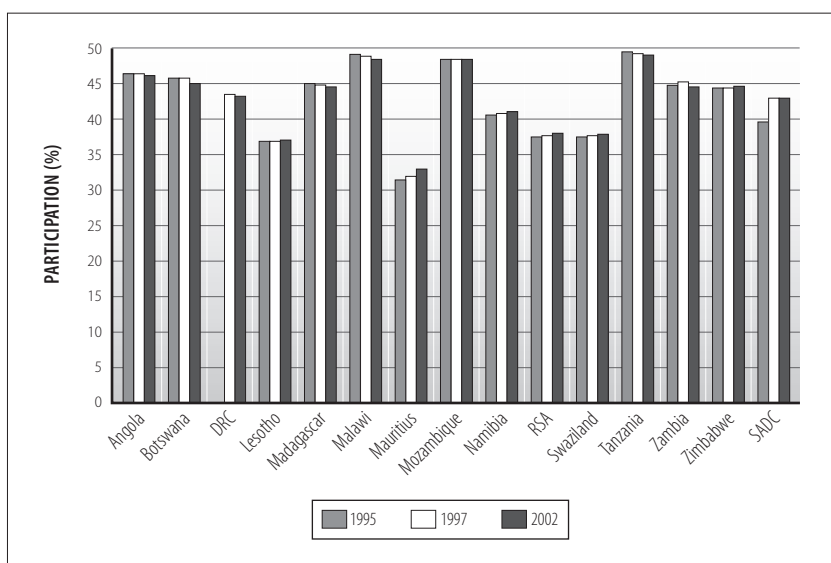
there has been a decline in the prevalence rates in all countries, with significant reductions in South Africa (from 21,5% in 2003 to 10% in 2005), Botswana (from 37,3% in 2003 to 21,3% in 2005) and Swaziland (from a high of 38,8% in 2003 to 26% in 2008). This can be attributed to increased governmental and non-governmental initiatives to fight the pandemic.

Owing to the unavailability of data on the gender-related HDI and Gender Empowerment Measure (GEM), the study uses statistics on adult literacy rates and the participation of women in the labour force, shown in the following table and figure, to access the region's gender dimensions of poverty. From Table 3.4 it can be seen that it is only Botswana and Namibia where female adult literacy rates are higher than the male rates. However, some countries lag behind in their female adult literacy rates (Mozambique 25% in 2005, Malawi 54% in 2005, Angola 54,2% in 2005, DRC 54,1% in 2005, and Zambia 59,8% in 2005). In terms of participation in the labour force, interestingly Mauritius, which is an HHD country in terms of the HDI and ranks number one in SADC in terms of real GDP per capita, has the least women participation in its labour force (33% in 2002) compared to other countries with relatively higher participation. This shows that high real GDP per capita or HDI does not necessarily translate into high gender empowerment.

**Table 3.4:** *SADC adult literacy rates (women vs. men)*

| Country    | 1998     |            |                  | 2005     |            |                  |
|------------|----------|------------|------------------|----------|------------|------------------|
|            | Male (%) | Female (%) | Female as % male | Male (%) | Female (%) | Female as % male |
| Mauritius  | 87       | 80,3       | 92,0             | 88,2     | 80,5       | 91,3             |
| RSA        | 86       | 83,9       | 98,0             | 84,1     | 80,9       | 96,2             |
| Swaziland  | 80       | 77,3       | 97,0             | 80,9     | 78,3       | 96,8             |
| Namibia    | 82       | 79,7       | 97,0             | 86,8     | 83,5       | 96,2             |
| Botswana   | 73       | 78,2       | 107,0            | 80,4     | 81,8       | 101,7            |
| Lesotho    | 71       | 92,9       | 131,0            | 73,7     | 90,3       | 122,5            |
| Zimbabwe   | 92       | 82,9       | 90,0             | 92,7     | 86,2       | 93,0             |
| DRC        | 71       | 47,1       | 66,0             | 80,9     | 54,1       | 66,9             |
| Zambia     | 84       | 69,1       | 82,0             | 76,3     | 59,8       | 78,4             |
| Tanzania   | 84       | 64,3       | 77,0             | 77,5     | 62,2       | 80,3             |
| Angola     | –        | –          | –                | 82,9     | 54,2       | 65,4             |
| Malawi     | 74       | 44,1       | 60,0             | 74,9     | 54,0       | 72,1             |
| Mozambique | 63       | 27,0       | 43,0             | 54,8     | 25,0       | 45,6             |
| Madagascar | –        | –          | –                | 76,5     | 65,3       | 85,4             |

Source: UNDP Human Development Report, 2007, African Development Indicators

**Figure 3.7:** *Trends in participation of women in the labour force*

Source: African Development Indicators, 2007

## **Global, regional and national poverty reduction strategies and policies**

Whilst poverty has been described in many ways, there is consensus that poverty is undesirable and therefore needs to be reduced and eradicated. It calls for action from everyone, the poor and the wealthy alike, to change the world so that many more may have enough to eat, adequate shelter, access to clean water, education and health, protection from violence, and a voice in what happens in their communities.<sup>4</sup> The lenders and donors of the MDGs consider reduction of extreme poverty as the prime goal and measure of development.

### **Global poverty reduction programmes**

There are currently a number of global poverty reduction programmes (PRPs) that have been designed from the multilateral level (i.e. the UN), to intergovernmental agencies (for instance, the World Bank and the IMF), and to continental bodies (such as the African Union [AU] / New Partnership for African Development [NEPAD]).

### *Millennium Development Goals*

In September 2000, members of the UN adopted the MDGs, consisting of eight broad goals, as concrete measures for judging performance through a set of interrelated commitments, goals and targets on development, governance, peace, security and human rights. The MDGs are considered to be the first set of quantitative and time-bound goals shared by developing and developed countries, offering an integrated, goal-oriented measuring stick for poverty reduction.

Goal number one of the MDGs is 'Eradicate extreme poverty and hunger', whose three targets to be achieved by 2015 are reducing by half the proportion of people living on less than US\$1 a day; achieving full and productive employment and decent work for all, including women and young people; and reducing by half the proportion of people who suffer from hunger.<sup>5</sup> Whilst most SADC countries have instituted a number of policies to achieve this goal, as of now most are still a long way off and most (if not all) will not meet this goal by 2015.

**Box 3.1:** *Millennium Development Goals*

- Goal 1:** Eradicate extreme poverty and hunger
- Goal 2:** Achieve universal primary education
- Goal 3:** Promote gender equality and empower women
- Goal 4:** Reduce child mortality
- Goal 6:** Combat HIV and AIDS, malaria and other diseases
- Goal 7:** Ensure environmental sustainability
- Goal 8:** Develop a Global Partnership for Development

**World Bank and IMF poverty reduction programmes**

The Comprehensive Development Framework (CDF) was proposed by the World Bank in early 1999 as a means by which countries can manage knowledge and resources to design and implement effective strategies for economic development and poverty reduction. The PRSP is based on CDF principles. It integrates poverty-reducing policies into a coherent, growth-oriented macroeconomic framework. As with the CDF, national governments are responsible for the preparation of Poverty Reduction Strategy Papers (PRSPs), with the participation of domestic and external partners. External partners are encouraged to assist governments in preparing PRSPs, and to link their development efforts to them. A PRSP must be broadly endorsed by the World Bank and IMF boards to provide a basis for both institutions' programmes in low income countries, and for countries to obtain debt relief under the heavily indebted poor countries (HIPC) initiative.

***The Poverty Reduction and Growth Facility (PRGF)***

In September 1999, the IMF established the PRGF to make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries. This programme is the IMF's low-interest lending facility for low-income countries and these programmes are normally underpinned by comprehensive country-owned poverty reduction and growth priorities.<sup>6</sup>



## **Africa's poverty reduction programme**

In an attempt to give special attention to poverty reduction in the African continent, the AU, in conjunction with NEPAD, adopted the Comprehensive Africa Agriculture Development Programme (CAADP) in 2003. This programme considers agriculture as one of the main areas with the potential to eradicate poverty in the continent, given that more than 70 per cent of the continent's population lives in rural areas and depends on agricultural activities. According to this programme, 'agriculture-led development is fundamental to reducing hunger, and in turn reduce poverty (70% of which is in rural areas), generating economic growth, reducing the burden of food imports and opening the way to an expansion of exports'.

## **SADC's poverty eradication strategy**

### **Regional Indicative Strategic Development Plan (RISDP) – interventions target and impact on poverty**

The RISDP places priority on poverty reduction and its eventual elimination as a means of realising the goals of high and sustainable economic growth and deepening economic integration. The RISDP is a 15-year regional integration development framework which sets the priorities, policies and strategies for achieving the long-term goals of the SADC of sustainable and equitable economic growth and socioeconomic development.

Under the RISDP, the overall goal of the poverty intervention area is to promote sustainable and equitable economic growth and socioeconomic development that will ensure poverty alleviation, with the ultimate objective of its eradication. This goal is achieved through progress in a number of focus areas. Taking cognisance of the fact that poverty is a multifaceted phenomenon and thus caused by many factors, the region has considered poverty eradication to be addressed in the priority intervention areas of combating the HIV and AIDS pandemics, gender equality and development, trade, economic liberalisation and development, infrastructure support for regional integration and poverty eradication, sustainable food security, and human and social development. It is also addressed in the

SADC Indicative Plan of the Organ on Politics, Defence and Security in view of the importance of good governance for poverty eradication.<sup>7</sup>

In terms of poverty alleviation strategies, the region believes that the eradication of poverty requires that opportunities be created for the poor to create wealth for themselves. This involves building the capital assets of the poor, redistributing natural assets, constructing and maintaining infrastructure, promoting knowledge and health in poor areas, protecting the environment, and reducing economic inequalities.<sup>8</sup> The strategy further requires the regional bloc to expand its offensive export trade into regional and international markets, and also provide incentives to promote investment to stimulate economic growth and employment creation for the poor.

The region further asserts the facilitation of the empowerment of poor citizens through the adoption of a relevant political and legal basis for inclusive development, promotion of public administrations that foster economic growth and equity, encouragement of inclusive decentralisation and community development, promotion of gender equity, addressing of social barriers, and supporting poor people's social capital.

Regional targets on poverty reduction-related goals include halving the proportion of the population that lives on less than US\$1 per day between

**Box 3.2:** *RISDP priority intervention areas*

**Cross-sectoral intervention areas**

- ◆ Poverty eradication
- ◆ Combating of the HIV/AIDS pandemic
- ◆ Gender equality and development
- ◆ Science and technology
- ◆ Information and communication technologies
- ◆ Environmental and sustainable development
- ◆ Private sector
- ◆ Statistics .

**Sectoral cooperation and integration intervention areas**

- ◆ Trade/economic liberalisation and development
- ◆ Infrastructure support for regional integration and poverty eradication
- ◆ Sustainable food security
- ◆ Human and social development.

**Box 3.3:** *The RISDP's poverty reduction strategy***Poverty reduction target**

- ◆ Half the proportion of the population that lives on less than US\$1 per day between 1990 and 2015.

**Poverty reduction focal areas**

- ◆ Combating of the HIV/AIDS pandemic
- ◆ Gender equality and development
- ◆ Environmental and sustainable development
- ◆ Trade, economic liberalisation and development
- ◆ Infrastructure support for regional integration
- ◆ Sustainable food security
- ◆ Human and social development.

**Poverty reduction strategies**

- ◆ Creation of opportunities for the poor to create wealth for themselves. This entails building up the capital assets of the poor, redistributing natural assets, constructing and maintaining infrastructure and promoting knowledge and health in poor areas, protecting the environment, and reducing economic inequalities. It also entails expanding into regional and international markets, promoting investment to stimulate economic growth, and employment creation for the poor.
- ◆ Facilitating the empowerment of poor people by laying the political and legal basis for inclusive development, promoting public administrations that foster economic growth and equity, promoting inclusive decentralisation and community development, promoting gender equity, addressing social barriers, and supporting poor people's social capital.
- ◆ Reducing the risks of such events as conflicts, crimes, diseases, and economic reforms and crises.
- ◆ Reducing the vulnerability of the poor and establishing coping mechanisms.

**Funding of poverty reduction strategies**

- ◆ Self-financing mechanisms
- ◆ Regional Development Fund (RDF) to be financed by member countries, development finance institutions.

**Monitoring and evaluation**

- ◆ Poverty to be monitored regularly at three levels, that is, policy level, stakeholder level and technical level.
- ◆ Independent evaluation would be conducted every three years to assess poverty reduction and its ultimate eradication.

1990 and 2015, and achieving a GDP growth of at least seven per cent per year between 1990 and 2015. With regards to targets on AIDS, the region aims that by 2010 at least 95 per cent of young men and women aged 15 to 24 have access to information and education, including peer education and youth-specific HIV education. Also, that by 2010 member states would have reduced the proportion of infants infected with HIV by 50 per cent and that all member countries should halt and begin to reverse the spread of HIV and AIDS by 2015.

The following section reviews some of the strategies and programmes that have been adopted by some SADC member states as part of efforts to reduce and eradicate poverty.

### **Outline of SADC countries' specific poverty reduction strategies**

In recent years, SADC countries, just like other developing countries in Africa and the rest of the world, have been working on poverty reduction strategies, both under the PRSPs<sup>9</sup> framework enthused by the IMF and the World Bank under the HIPC initiative, and under own initiated national poverty reduction strategies or programmes for non-HIPC countries.

Countries have also been encouraged to put together comprehensive poverty reduction strategies that should similarly contribute to poverty alleviation and thereby to the achievement of the MDGs set by the international community.

To this end, a wide range of governmental and non-governmental poverty alleviation strategies and institutional reforms has been adopted in a number of SADC countries. These include innovative elements such as the participation of civil society and a focus on governance issues to reduce poverty and its undesirable effects. The efforts range from community-based efforts to national programmes. They target specific groups affected by poverty, such as orphans, children, immigrants, the disabled, the homeless, and so forth. The programmes have been using different sets of methods, such as social work, charity, community programmes, advocacy, legislation, and so on.

SADC countries that have designed and implemented IMF/World Bank inspired PRSPs include Angola, DRC, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia. The remaining member states

have been working on national poverty reduction strategies (NPRS) and/or development frameworks that deal with poverty alleviation. These include Botswana, Mauritius, Namibia, South Africa and Zimbabwe (see Box 3.4).

**Box 3.4:** *Poverty reduction strategies in SADC member states*

| Poverty Reduction Strategy Programme                         | Period  | Initiative     |
|--------------------------------------------------------------|---------|----------------|
| <b>Malawi</b>                                                |         |                |
| Poverty Alleviation Programme                                | 1994–96 | Own initiative |
| Malawi Vision 2020                                           | 1996–98 | Own initiative |
| Poverty Reduction Strategy Paper                             | 2002–05 | PRSP inspired  |
| Malawi Growth & Development Strategy                         | 2006–10 | PRSP inspired  |
| <b>Zambia</b>                                                |         |                |
| Transitional National Development Plan                       | 2002–05 | PRSP inspired  |
| Fifth National Development Programme                         | 2006–10 | PRSP inspired  |
| <b>DRC</b>                                                   |         |                |
| Poverty Reduction Strategy Paper                             | 2006–08 | PRSP inspired  |
| <b>Tanzania</b>                                              |         |                |
| Poverty Reduction Strategy Paper                             | 2001–04 | PRSP inspired  |
| National Strategy for Growth and Reduction of Poverty        | 2005–10 | PRSP inspired  |
| <b>Angola</b>                                                |         |                |
| Poverty Reduction Strategy Paper                             |         |                |
| <b>Madagascar</b>                                            |         |                |
| Poverty Reduction Strategy Paper                             | 2005–06 | PRSP inspired  |
| Madagascar Action Plan                                       | 2007–12 | PRSP inspired  |
| <b>Lesotho</b>                                               |         |                |
| Poverty Reduction Strategy Paper                             | 2005–07 | PRSP inspired  |
| <b>Mozambique</b>                                            |         |                |
| Action Plan for the Reduction of Absolute Poverty (PARPA I)  | 2001–05 | PRSP inspired  |
| Action Plan for the Reduction of Absolute Poverty (PARPA II) | 2006–09 | PRSP inspired  |

**Box 3.4** (*cont.*)

| Poverty Reduction Strategy Programme                                                          | Period  | Initiative       |
|-----------------------------------------------------------------------------------------------|---------|------------------|
| <b>Zimbabwe</b>                                                                               |         |                  |
| The Social Dimensions Adjustment Programme under the Economic Structural Adjustment Programme | 1991–95 | IMF/WB sponsored |
| The Poverty Alleviation Action Programme                                                      | 1994–96 | UNDP             |
| ZIMPREST                                                                                      | 1997    | Own initiative   |
| NEDPP                                                                                         | 2006    | Own initiative   |
| National Development and Poverty Reduction Strategy                                           | 2007–11 | Own initiative   |
| UN Development Assistance Framework                                                           | 2007–11 | UNDP             |
| <b>Botswana</b>                                                                               |         |                  |
| National Strategy for Poverty Reduction                                                       | 2003    | Own initiative   |
| <b>Namibia</b>                                                                                |         |                  |
| National Poverty Reduction Action Programme                                                   | 2000    | Own initiative   |
| National Development Plan (NDP2)                                                              | 2001–06 | Own initiative   |
| <b>Mauritius</b>                                                                              |         |                  |
| National Action Plan for Poverty Alleviation                                                  | 2001    | Own initiative   |
| <b>Swaziland</b>                                                                              |         |                  |
| Poverty Reduction Strategy and Action Plan                                                    | 2005    | Own initiative   |
| <b>South Africa</b>                                                                           |         |                  |
| South Africa Reconstruction and Development Programme                                         | 1994    | Own initiative   |
| Growth, Employment and Redistribution                                                         | 1996    | Own initiative   |
| Integrated Sustainable Rural Development Strategy                                             | 2000    | Own initiative   |
| Urban Renewal Programme                                                                       | 2000    | Own initiative   |
| Accelerated and Shared Growth Initiative of South Africa                                      | 2006    | Own initiative   |

The following section reviews poverty reduction strategies in Tanzania, Malawi, Zambia and Mozambique under the auspices of the IMF/World Bank; and Namibia, Swaziland, South Africa and Zimbabwe under own initiated national poverty reduction strategies, with the view of identifying gaps and links.

## High and low impact poverty reduction strategies in SADC countries

An analysis of poverty reduction/alleviation strategies in SADC shows that there are several lessons that can be used to improve ongoing strategies and the design and implementation of new strategies to fight poverty.

### Positive and high impact lessons

Although the prevalence of poverty in SADC remains high compared with other regions, SADC countries have made significant progress in addressing poverty in the following areas.

#### *More attention focused on poverty reduction*

The PRSP process has resulted in greater attention being focused on poverty reduction, with most SADC countries making poverty the central objective of their national and development policies. This is in line with the RISDP and the achievement of the MDGs. In some countries (e.g. Malawi, Zambia and Mozambique), PRSPs and own initiated poverty reduction strategies have become the country-level operational frameworks.

#### *Improved poverty diagnosis*

Whilst more work still needs to be done, there has been a general improvement in the quality of poverty diagnosis. One example is Mozambique, where through in-depth household surveys covering five years' results (first and second), the government has been able to come up with the true picture of its poverty profiles. This has gone a long way in assisting in the design and implementation of its PRSPs (PARPA I and II).

#### *Realisation and recognition of the multidimensional nature of poverty*

What has also strengthened poverty diagnosis has been the realisation and recognition that poverty is multidimensional, and therefore calls for a broader definition and measurements that take into account both quantitative and qualitative factors.

*More comprehensive poverty reduction initiatives/strategies*

The increased focus of attention on poverty reduction and improved poverty diagnosis has resulted in the design of more comprehensive PRSPs. In the past, national poverty reduction strategies in SADC countries were mere dreams or visions with a list of objectives without clearly spelt-out ways of achieving these objectives, for example the Malawi Poverty Alleviation Programme (PAP). However, with the coming of the IMF/World Bank inspired PRSP process, the design and implementation of poverty reduction strategies has become comparatively broader, stemming from the realisation of the multidimensional nature of poverty.

*Greater participation by stakeholders in the formulation and implementation of poverty reduction strategies*

The PRSP process has encouraged greater participation by relevant stakeholders in the formulation of PRSPs. Country experiences show that stakeholders (civil society organisations [CSO], donors, etc.) have been an integral part of the processes, participating in discussions, working groups or committees tasked with the responsibility of designing and implementing the poverty reduction programmes.

*Increased interest in poverty monitoring (evaluation)*

The increased focus on poverty reduction has resulted in increased interest in periodic monitoring of poverty levels in SADC countries. This has been carried out through different approaches and instruments (listed in Box 3.5), whose results have improved information about poverty profiles and trends, useful tools in the design and implementation of PRSPs.

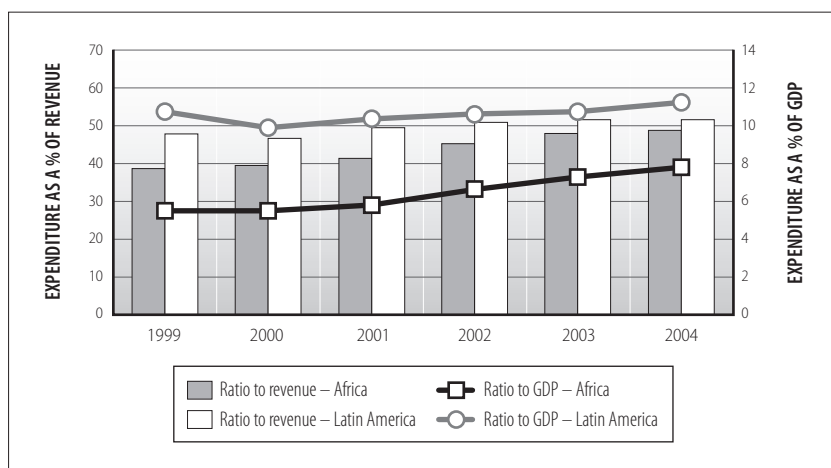
*Increase in pro-poor expenditure*

Driscoll and Evans<sup>10</sup> report that ‘within the context of the HIPC emphasis, PRSPs have largely managed to maintain a trend towards increased pro-poor expenditures’. This is supported by a comparison of pre-PRSP and post-PRSP poverty-oriented expenditure as a percentage of GDP for five SADC countries that have implemented PRSPs by the World Bank’s Operation and Evaluation Department,<sup>11</sup> which shows a notable increase in poverty-oriented expenditure. Figure 3.8 shows poverty-reducing expenditure expressed as a percentage of GDP and government revenue for 27 countries, including African countries that embarked on the PRSP process under the HIPC initiative from 1999 to 2004.



**Box 3.5:** *Approaches to monitoring poverty*

| Monitoring approach                                                                                                                           | Activity                                                                                                                                                                                           | Country employed                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| Participatory public expenditure surveys                                                                                                      | Analysis of the national budget on a yearly basis                                                                                                                                                  | Malawi                                  |
| Budget tracking/budget analysis – ‘social audits’                                                                                             | Analysing and tracking budget decisions                                                                                                                                                            | Mozambique, Malawi, Tanzania, Zambia    |
| Parliamentary oversight                                                                                                                       | Through parliamentary committees which have been established, especially in the areas of budget execution, providing support in accountability and resource allocation, overseeing draft decisions | Zambia                                  |
| Participatory Poverty Assessments                                                                                                             | Poverty monitoring and poverty data collection this exercise influences the poverty analysis for the PRSP                                                                                          | Malawi, Tanzania, Mozambique and Zambia |
| Poverty observatory (composed of civil society, central ministries, private sector, donors, parliamentarians and poor peoples’ organisations) | CSO participation in progress reports and PRSP reviews. The government of Mozambique adopted the CSO poverty annual report as their own progress report.                                           | Mozambique                              |

**Figure 3.8:** *Pro-poor expenditure for 27 countries under the HIPC initiative*

Source: IMF/World Bank 2005

However, it is important to take note of the fact that an increase in expenditure does not in itself necessarily translate into poverty reduction, but can only be used as indicators of PRSP implementation.

#### *Linkage of national and regional poverty reduction strategies and MDGs*

The poverty reduction strategies being pursued by individual SADC member states are generally consistent with the RISDPs and the attainment of MDGs. However, this is despite the fact that most PRSPs, as well as own initiated poverty reduction strategies being pursued by SADC countries, are silent on RISDPs and, in particular, the role that regional trade integration can play in the reduction and eradication of poverty. The linkage that obtains, however, between national and regional poverty reduction is not by coincidence. It is due to the fact that the RISDP was drawn up on the basis of PRSPs and derives from national consultations and inputs by SADC member states, as well as the commonality of poverty dimensions in the region. However, lack of explicit reference to regional PRPs in PRSPs downplays the role of regional economic integration. In other words, in their PRSPs countries need to build on commitments undertaken at regional level.

### **Low impact interventions: lessons and challenges**

#### *Exclusion of relevant stakeholders in the design and implementation of PRSPs*

The country experiences show that for some countries, at some stages or phases of the PRSP processes, relevant stakeholders have not been fully engaged, and this has seriously affected not only the design and mix of policies, but also the implementation process. In some cases there has been a drop-off of civil society from continued engagement in the implementation phase.

#### *Non-harmonisation of PRSPs and other development plans*

It is interesting to note that some of the countries pursuing PRSPs have developed these to run alongside other development plans without harmonising them into one strategy. This has seriously affected implementation, as it would seem a country is implementing two or more plans at the same time. The World Bank and the IMF also acknowledge that 'where PRSPs are developed in parallel with other documents, their role in government

decision-making is often unclear, although there have been encouraging shifts toward consolidation of plans in some countries’.

*Inappropriate mix of policies to ensure pro-poor economic growth and poverty reduction*

PRSPs being pursued by SADC countries have tended to overlook the importance of designing the appropriate mix of policies which ensures that growth is pro-poor by assuming that economic growth will necessarily result in poverty reduction. Whilst there is empirical evidence supporting this view, there remains the need to choose the appropriate mix of policies to ensure that economic growth resulting from the PRSPs is actually poverty reducing. This is evidenced by the cases of Zambia and South Africa where, despite sustained and steady economic growth, the countries have not witnessed significant changes in the prevalence of poverty.

*Weak direct link between poverty planning and budgeting*

In terms of linking poverty planning and budgeting, there is evidence of weak links between the poverty planning process and the budgeting process normally done. This stems from the fact that the responsibility for poverty reduction used to lie with other ministries, but this has changed with the coming of the PRSP process.

*Elusiveness in the ownership of PRSP programmes*

Another emerging issue is that of the undermining of country ownership of PRSPs. This mainly stems from the exclusion of relevant stakeholders, lack of harmonisation of PRSPs with other national development plans, and the participation and influence of the IMF and the World Bank in the process and conditionalities thereof.

*Limited donor harmonisation and alignment*

An assessment of the financing of poverty reduction strategies in the region shows that there is little harmonisation and alignment of donor assistance with PRSP priorities, for example the alignment of aid with budget cycles. This has, in some cases, hampered the successful implementation of PRSPs. The Paris Declaration was meant to bring about this harmonisation.

*Less emphasis on cross-cutting issues*

In some countries there has been less emphasis on cross-cutting issues, which has led to the increased incidence of poverty in the region in recent

years. These emerging issues include the HIV/AIDS pandemic, gender empowerment and environmental issues.

#### *Policy targeting and impact on poverty*

Unlike the MDGs, which have long-term targets and indicators, PRSPs have no specific required set of indicators, although they broadly present an opportunity for countries to design policy and institutional reforms to strengthen the delivery of basic services, promote growth and reduce poverty, and to consider their implications for the levels and modalities of external financing.

#### *Weak monitoring and evaluation of poverty reduction strategies*

Whilst several instruments and approaches have been designed to monitor and evaluate PRSP implementation, these have not been fully employed or institutionalised by countries.



The general conclusion from this analysis is that all SADC LDCs (Angola, DRC, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia) have implemented a series of IMF/World Bank inspired PRSPs under the HIPC initiative, while the non-LDCs have designed and implemented own development frameworks that deal with poverty alleviation. The analysis shows that there are commonalities between the various national poverty reductions policies and strategies. However, these commonalities are not coherently managed or harnessed to enhance synergies between different national policies and strategies. Countries' awareness of the regional dimensions of national poverty eradication strategies and policies will enable them to elevate the coordination of these at the regional level with a view to increasing synergies and enhancing economies of scale through collective intervention.

While most poverty reduction strategies being pursued by SADC countries are silent about the RISDP, a comparison of these various national poverty reduction programmes with RISDP interventions shows some coherence and consistence, and they are also linked to the attainment of MDGs. The linkage obtained, however, between national and regional poverty reduction is not by coincidence. It is due to the fact that the RISDP was drawn up on the basis of national PRSPs and derives from national consultations

and inputs by SADC member states. It also underlies the commonality of poverty dimensions and challenges across the region. However, lack of explicit reference to RISDP interventions and targets in PRSPs downplays the role of regional economic integration. In other words, countries need to build on commitments undertaken at regional level in their PRSPs and national budgets.

## Notes and references

- 1 SADC. 2008. 'Bridging Poverty and Development through Social Protection'. Background paper for the Mauritius International Conference on Poverty and Development.
- 2 Chambers, R., 2006. 'What is Poverty? Who asks? Who answers?' In *Poverty in Focus: What is poverty? Concepts and measures*. UNDP, International Poverty Centre.
- 3 In some cases the SADC average is included.
- 4 World Bank. 2002. 'Poverty in Bangladesh: Building on progress'. Washington: World Bank, Poverty Reduction and Economic Management Sector Unit, South Asia Region. Report No. 24299-BD; 2002.
- 5 UNDP: Millennium Development Goals. Available at <http://www.undp.org/mdg/goal1.shtml> [Accessed 15 February 2011].
- 6 IMF: The Poverty Reduction and Growth Facility. Available at <http://www.imf.org/external/np/exr/facts/prgf.htm> [Accessed 15 February 2011].
- 7 SADC, Regional Indicative Strategic Development Plan (RISDP) 2003. 'Operationalisation of the Regional Indicative Strategic Development Plan (RISDP)'. August 2003. Dar-Es-Salaam, United Republic of Tanzania
- 8 Ibid.
- 9 A PRSP describes a country's macroeconomic, structural and social programmes to promote growth and reduce poverty, as well as associated external financing requirements (IMF, 2005:1). PRSPs are prepared by governments through a participatory process that involves civil society and development partners, including the IMF and the World Bank. Poverty Reduction Strategy Papers provide the basis for IMF and World Bank assistance under the HIPC (Heavily Indebted Poor Countries) initiative. The timeframe for preparing PRSPs is three years, with changes being made in annual progress reviews.

- 10 Driscoll, R. and Evans, A., 2004. *Second Generation Poverty Reduction Strategies*. London: Overseas Development Institute.
- 11 World Bank's Operation and Evaluation Department. 2004. 2003 Annual Review of Development Effectiveness – The effectiveness of Bank support for policy reform'. OED Study Series. Washington D.C.: World Bank.

# 4

## Status and Progress of SADC Regional Trade Integration

Tendai Chigwada and Fudzai Pamacheche

### Background to SADC integration

THE SADC REGION HAS BEEN IN EXISTENCE SINCE 1980. INITIALLY, IT was formed as a loose alliance of nine majority-ruled states in southern Africa (the Frontline States), known as the Southern African Development Coordination Conference (SADCC), with the main aim of coordinating development projects in order to lessen economic dependence on the then apartheid-South Africa. The transformation of the organisation from a Coordinating Conference into a Development Community (SADC) took place on 17 August 1992 in Windhoek, Namibia, when the Declaration and Treaty was signed. The Community's vision is that of a common future, a future within a regional community that will ensure economic wellbeing, improvement of the standards of living and quality of life, freedom and social justice, and peace and security for the peoples of southern Africa.

The objectives of the Community as stated in the Treaty are to

- achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of southern Africa, and support the socially disadvantaged through regional integration;
- evolve common political values, systems and institutions;
- promote and defend peace and security;
- promote self-sustaining development on the basis of collective self-reliance, and the inter-dependence of member states;
- achieve complementarity between national and regional strategies and programmes;
- promote and maximise productive employment and utilisation of resources in the region;

- achieve the sustainable utilisation of natural resources and the effective protection of the environment; and
- strengthen and consolidate the long-standing historical, social and cultural affinities and links among the peoples of the region.

## Orientation of SADC trade liberalisation policies

In southern Africa, trade policy orientations have been characterised by shifts between protectionism and liberalisation. For instance, in the 1980s, most SADC states were characterised by control of imports through licensing, quotas, high tariffs, administrative exchange rate allocations and various non-tariff barriers. However, by the early 1990s, the general economic failure of government interventionist policies and economic decline, coupled with a number of fundamental changes in the regional and international outlook, brought about shifts in development paradigms and, with them, a shift from protectionism to trade liberalisation.<sup>1</sup>

For many SADC countries, trade policy is guided by the rules and disciplines of regional (Common Market for Eastern and Southern Africa [COMESA], East African Community [EAC], Southern African Customs Union [SACU], African, Caribbean and Pacific Group of States–Economic Partnership Agreement [ACP-EPA] and African Growth and Opportunity Act [AGOA]) and multilateral (World Trade Organization [WTO]) trade arrangements of which they are members, as well as bilateral agreements and autonomous structural adjustment programmes supported by the IMF and the World Bank. With the support of the international financial institutions (the World Bank and the IMF), most SADC countries embarked on autonomous structural adjustment, market-oriented programmes, of which trade liberalisation was a key component. These measures were reinforced by the liberalisation of trade within the SADC trade integration framework, and more importantly, within the multilateral trading system (WTO). Trade liberalisation has seen the lifting of restrictions on trade through the removal of non-tariff trade barriers and the reduction of tariffs. In essence, the private sector is the main player in trade development and the government is the facilitator.

Thus, most SADC countries, although at various levels, are pursuing more open trade policies by further liberalising trade within regional and multilateral frameworks. Trade liberalisation is seen as a vehicle for



enhanced domestic productivity, efficiency, improved quality and low prices, which ultimately lead to improved consumer welfare. The common denominator in terms of the trade policy orientations and objectives of SADC countries include:

- Commitment to autonomous trade liberalisation which many countries embarked on prior to the establishment of WTO adoption of SADC trade protocol, or the launch of the COMESA Free Trade Agreement (FTA) launch
- Commitment to regionalism (regional trade liberalisation) as a building block towards multilateralism
- Seeking increased market access for their exports in the world markets through the WTO
- Use of preferential market access currently available under AGOA, ACP-EU and WTO, especially for least developed countries (LDCs)
- Pursuit of a significantly liberalised economy based on tariffs, to include tariff rationalisation, reduction and unification
- Adherence to WTO rights and obligations. Government policy and regulation has attempted to codify the country's WTO obligations
- Focus on the promotion of exports and the maintenance of open markets abroad
- Use of trade defence instruments in place of non-tariff barriers (NTBs)
- Pursuit of export-led growth and liberalisation of trade.

One overriding consideration in the trade policy of SADC countries as it applies to border taxes is the revenue generation of duties. For most SADC countries, tariffs are not used for industrial development but to serve as the most liable source of government revenue. Without any other alternative, government will not reduce tariffs.

To a certain extent, the trade policy objectives of SADC states are generally compatible. They all follow one direction of trade liberalisation, commitment to WTO obligations, pursuance of export-led growth, seeking increased market access for their products in regional and world markets, use of tariff-based protection in place of NTBs, and rationalising and lowering tariff structures.

The level of commitment and consistency of trade policy varies across the member countries. Countries that have carried out trade policy liberalisation consistently include the SACU group (excluding South Africa),

Zambia's 'big bang approach', Mauritius, Mozambique and Malawi. On the other hand, in some countries and for various reasons, such as economic failure, politics and the power of industrial lobbyists, there is some inconsistency between the official position on trade policy and practice, including trade policy reversals. For example, Zimbabwe recently adopted a 'big bang' trade liberalisation to address the massive goods and food shortages following the failure of extensive price and import control policies, which led to a decade of economic non-performance and near social disaster. The Republic of South Africa (RSA) is maintaining some quota restrictions on imports from non-SACU countries, which is particularly affecting Zambia's exports from the region.

### **SADC Free Trade Agreement–Trade Protocol and levels of implementation**

In accordance with Article 22 of the Treaty, the SADC states signed a Protocol on Trade on 24 August 1996. The Trade Protocol (TP) entered into force on 25 January 2000, although it was implemented from 1 September 2000. The specific objectives of this Protocol as stated in Article 2 are

- to further liberalise intra-regional trade in goods and services on the basis of fair, mutually equitable and beneficial trade arrangements, complemented by protocols in other areas;
- to ensure efficient production within SADC, reflecting the current and dynamic comparative advantages of its members;
- to contribute towards the improvement of the climate for domestic, cross-border and foreign investment;
- to enhance the economic development, diversification and industrialisation of the region; and
- to establish an FTA in the SADC region.

The region has been trading as a preferential trade area (PTA)<sup>2</sup> since its inception in 2000. However, based on the implementation of the agreed tariff phase-down commitments, SADC attained the FTA<sup>3</sup> status as of January 2008, although the formal FTA launch was done at a regional Heads of State Summit in Johannesburg, South Africa, 16–17 August 2008. The region's integration roadmap, as provided for in the Regional

Indicative Strategic Development Plan (RISDP), shows that it intends to move to a deeper integration that includes the establishment of a customs union by 2010, a common market by 2015, and a monetary union by 2016.

According to the SADC roadmap, member states started implementing the Trade Protocol in 2000, which was expected to be completed over eight years, thus moving from a PTA to an FTA in 2008. At that moment, up to 85 per cent of trade flows within SADC would be duty free.<sup>4</sup> The remaining 15 per cent, consisting of sensitive products, would be liberalised by 2012. For the period 2000 to early 2008, member states made some progress in implementing this protocol, especially in the areas of tariff phase downs, customs operations, standards, quality, accreditation and metrology, and related trade measures.<sup>5</sup>

The tariff liberalisation under the SADC TP was based on the principle of asymmetry, where those countries that are relatively developed reduce their tariffs at a faster pace than those that are less developed. The countries were, therefore, grouped into three categories:

- SACU countries, by virtue of being a customs union, had to be treated as one, although South Africa's market access was different to that of other SACU countries. Because of South Africa's level of development, SACU had to fast track its liberalisation pace, commonly referred to as front-loading.
- Mauritius and Zimbabwe were considered slightly well-off and were allowed to liberalise at a slower pace than SACU, commonly referred to as mid-loading.
- Malawi, Mozambique, Tanzania and Zambia, which are LDCs, were allowed to delay their liberalisation pace until towards the eighth year, referred to as back-loading.

The general agreement on tariff reduction was that substantially all goods should be liberalised at least up to a minimum of 85 per cent of the Harmonised System (HS) tariff classification. The tariff phase-down schedules were principally divided into three main categories, namely:

- **Category A:** this refers to those goods under the HS for which a country was ready to remove tariffs to zero immediately on the first day of implementation.

- **Category B:** comprised goods which would have their tariffs reduced gradually over an eight-year period, achieving zero tariff level by January 2008. The rate of reduction did not have to be the same; it was left to the different member states to determine.
- **Category C:** comprised goods or products that a country felt it needed time to adjust its productive capacities and would require more time to remove the tariffs. Some of the criteria for selecting these products were their sensitivity to employment, revenue contribution, investment potential or infant industry protection. This category is commonly referred to as the list of sensitive products.

While each country had its own list of sensitive products, these lists were not similar. However, there are two areas where they were more or less similar: the textile and clothing chapter; and sugar. Two separate sector agreements were negotiated. On textiles and clothing, SACU offered duty free market access to Malawi, Mozambique, Tanzania and Zambia, but controlled by quotas. The quotas were determined on the basis of the production capacities of these countries. Mauritius and Zimbabwe were excluded from this derogation as they were seen to be more competitive in this area, but there was agreement on accelerated tariff phase down on textiles and clothing, which took too long to implement. As a result of these preferences, Malawi at some point became the major exporter of apparel into the SACU market. Given the labour-intensive nature of the textiles and clothing sector, it is assumed that employment levels improved in the sector

The second special agreement was on trade in sugar. The reason for a special agreement was based on the distorted international market for sugar. Under the ACP trade arrangements with the EU, sugar had a guaranteed price, and the US also had a special guaranteed price under its Generalised System of Preferences (GSP) programme. Given these preferences, the region was of the view that it was necessary to have an agreement that tries to give market access for sugar producing countries into the SACU market, which was the main market for sugar.

At the same time, it was viewed as important to protect sugar producers within SACU. The agreement was based on duty free market access controlled by quotas. The quotas were calculated on the basis of a formula, which took into account the level of exposure of a country to the international free market. This excluded the quantities exported under

the ACP-EU or US GSP preferences. Through this agreement, countries like Mozambique, which did not have market access to the EU, benefited substantially from this market access and from investment inflows from both the RSA and Mauritius in the sugar industry.

These two special agreements had an effect on the extent of sensitive products, as they allowed some degree of free trade to take place despite being listed as sensitive products. These were temporary agreements that expired once an FTA had been achieved in January 2008. There was also an agreement on prohibited goods, which some countries showed as exclusions for tariff liberalisation, and in some cases it is referred to as category E.

The following tables show the tariff liberalisation under the SADC TP for the different countries by HS section, as contained in the WTO Secretariat: Factual Presentation–Protocol on Trade in SADC. Table 4.1 shows the tariff lines that were made duty free for each year towards imports from the rest of SADC and from the RSA. The very high figures where tariffs were reduced to zero in 2007 indicate the back-loading approach adopted by Malawi. Malawi achieved just over 85 per cent duty free imports to all SADC by 2008.

**Table 4.1:** *Malawi – Tariff treatment applied to RSA and to other SADC members*

| HS section                       | SADC member (except RSA) |      |      |      |      |      | RSA          |      |      |      |      | Excluded to all |
|----------------------------------|--------------------------|------|------|------|------|------|--------------|------|------|------|------|-----------------|
|                                  | Duty free in             |      |      |      |      |      | Duty free in |      |      |      |      |                 |
|                                  | 2001                     | 2005 | 2006 | 2007 | 2008 | 2012 | 2001         | 2005 | 2006 | 2008 | 2012 |                 |
| Total                            | 1819                     | 1    | 830  | 1992 | 3    | 779  | 1818         | 2    | 73   | 2727 | 804  | 19              |
| Live Animals and Animal Products | 81                       |      |      | 9    |      | 110  | 81           |      |      | 2    | 117  |                 |
| Vegetable Products               | 54                       |      |      | 16   |      | 219  | 54           |      |      | 16   | 219  |                 |
| Animal or Vegetable Fat, Oils    | 9                        |      |      |      |      | 37   | 9            |      |      |      | 37   |                 |
| Prepared Foodstuffs, Beverages   | 12                       |      | 10   | 8    |      | 198  | 12           |      | 11   | 3    | 202  | 1               |
| Mineral Products                 | 66                       |      | 1    | 74   |      | 18   | 65           |      |      | 74   | 20   |                 |
| Products of Chem. Industries     | 659                      |      | 44   | 90   |      | 1    | 659          |      | 2    | 132  | 1    |                 |

Table 4.1 (cont.)

| HS section                    | SADC member (except RSA) |      |      |      |      |      | RSA          |      |      |      |      | Excluded to all |
|-------------------------------|--------------------------|------|------|------|------|------|--------------|------|------|------|------|-----------------|
|                               | Duty free in             |      |      |      |      |      | Duty free in |      |      |      |      |                 |
|                               | 2001                     | 2005 | 2006 | 2007 | 2008 | 2012 | 2001         | 2005 | 2006 | 2008 | 2012 |                 |
| Plastics and Articles thereof | 25                       |      | 61   | 130  |      |      | 25           |      |      | 191  |      |                 |
| Raw Hides and Skins, Leather  | 24                       |      |      | 43   |      | 7    | 24           |      |      | 43   | 7    |                 |
| Wood and Articles of Wood     | 3                        |      |      | 80   |      |      | 3            |      |      | 80   |      |                 |
| Pulp Wood                     | 14                       |      | 10   | 32   |      | 101  | 14           |      |      | 31   | 112  |                 |
| Textiles and Textile Articles | 440                      | 1    | 60   | 326  |      | 9    | 440          | 2    | 55   | 330  | 9    |                 |
| Footwear, Headgear, Umbrellas | 11                       |      | 3    | 45   |      |      | 11           |      | 3    | 45   |      |                 |
| Articles of Stone and Plaster | 35                       |      |      | 121  |      |      | 35           |      |      | 121  |      |                 |
| Natural and Cultured Pearls   | 2                        |      |      | 53   |      |      | 2            |      |      | 53   |      |                 |
| Base Metals                   | 197                      |      | 24   | 384  |      | 4    | 197          |      |      | 408  | 4    |                 |
| Machinery                     | 8                        |      | 615  | 278  | 3    |      | 8            |      |      | 895  | 1    |                 |
| Vehicles, Aircraft, Vessels   | 55                       |      |      | 33   |      | 75   | 55           |      |      | 33   | 75   |                 |
| Optical Equipment             | 118                      |      |      | 136  |      |      | 118          |      |      | 136  |      |                 |
| Arms and Ammunition           |                          |      |      |      |      |      |              |      |      |      |      | 18              |
| Misc. Manufactured Articles   | 6                        |      | 2    | 127  |      |      | 6            |      | 2    | 127  |      |                 |
| Works of Art                  |                          |      |      | 7    |      |      |              |      |      | 7    |      |                 |

Source: WTO Secretariat based on data submitted by the parties

Table 4.2 shows that Mauritius decided to have the same treatment for both South Africa and the rest of SADC. By 2006 it had achieved 90 per cent duty free for rest of SADC, and for South Africa it achieved this by 2008.

**Table 4.2:** *Mauritius – Tariff treatment applied to RSA and to other SADC members*

| HS section                       | SADC member<br>(except RSA) |              |            | RSA          |           |              |            |
|----------------------------------|-----------------------------|--------------|------------|--------------|-----------|--------------|------------|
|                                  | Duty free in                |              |            | Duty free in |           |              |            |
|                                  | 2001                        | 2005         | 2012       | 2001         | 2003      | 2007         | 2012       |
| <b>Total</b>                     | <b>3 821</b>                | <b>1 138</b> | <b>520</b> | <b>3 804</b> | <b>17</b> | <b>1 138</b> | <b>520</b> |
| Live Animals and Animal Products | 167                         | 32           | 11         | 167          |           | 32           | 11         |
| Vegetable Products               | 245                         | 30           | 14         | 244          | 1         | 30           | 14         |
| Animal or Vegetable Fat, Oils    | 41                          | 0            | 5          | 41           |           | 0            | 5          |
| Prepared Foodstuffs, Beverages   | 92                          | 39           | 83         | 91           | 1         | 39           | 83         |
| Mineral Products                 | 143                         | 15           | 3          | 143          |           | 15           | 3          |
| Products of Chem. Industries     | 702                         | 48           | 55         | 695          | 7         | 48           | 55         |
| Plastics and Articles thereof    | 102                         | 56           | 55         | 102          |           | 56           | 55         |
| Raw Hides and Skins, Leather     | 56                          | 1            | 17         | 56           |           | 1            | 17         |
| Wood and Articles of Wood        | 62                          | 10           | 14         | 62           |           | 10           | 14         |
| Pulp Wood                        | 107                         | 23           | 37         | 107          |           | 23           | 37         |
| Textiles and Textile Articles    | 680                         | 151          | 18         | 680          |           | 151          | 18         |
| Footwear, Headgear, Umbrellas    | 22                          | 11           | 26         | 22           |           | 11           | 26         |
| Articles of Stone and Plaster    | 89                          | 60           | 14         | 83           | 6         | 60           | 14         |
| Natural and Cultured Pearls      | 43                          | 0            | 11         | 43           |           | 0            | 11         |
| Base Metals                      | 343                         | 247          | 72         | 343          |           | 147          | 72         |
| Machinery                        | 571                         | 235          | 35         | 571          |           | 235          | 35         |
| Vehicles, Aircraft, Vessels      | 100                         | 56           | 11         | 99           | 1         | 56           | 11         |
| Optical Equipment                | 198                         | 44           | 1          | 198          |           | 44           | 1          |
| Arms and Ammunition              | 0                           | 18           | 0          | 0            |           | 18           | 0          |
| Misc. Manufactured Articles      | 51                          | 59           | 38         | 50           | 1         | 59           | 38         |
| Works of Art                     | 7                           | 3            | 0          | 7            |           | 3            | 0          |

Source: WTO Secretariat based on data submitted by the parties

Table 4.3 shows that Mozambique achieved 94,3 per cent duty free for the rest of SADC by 2008, and for South Africa it achieved 93 per cent. Mozambique will have a few tariff lines targeted at South Africa which will achieve the zero tariffs by 2015. This may be reviewed once the full FTA is in place, as the environment changes.

**Table 4.3:** *Mozambique – Tariff treatment applied to RSA and to other SADC members*

| HS section                     | SADC member (except RSA) |              |            |           | RSA          |              |            |           |
|--------------------------------|--------------------------|--------------|------------|-----------|--------------|--------------|------------|-----------|
|                                | Duty free in             |              |            | Excluded  | Duty free in |              |            | Excluded  |
|                                | 2001                     | 2008         | 2012       |           | 2001         | 2003         | 2015       |           |
| <b>Total</b>                   | <b>1 578</b>             | <b>3 351</b> | <b>298</b> | <b>19</b> | <b>1 475</b> | <b>3 382</b> | <b>370</b> | <b>19</b> |
| Live Animals & Animal Products | 44                       | 125          | 42         | 2         | 31           | 133          | 47         | 2         |
| Vegetable Products             | 133                      | 142          | 29         |           | 120          | 145          | 39         |           |
| Animal or Vegetable Fat, Oils  | 14                       | 19           | 15         |           | 13           | 19           | 16         |           |
| Prepared Foodstuffs, Beverages | 36                       | 145          | 16         |           | 9            | 146          | 42         |           |
| Mineral Products               | 118                      | 41           | 3          |           | 115          | 41           | 6          |           |
| Products of Chem. Industries   | 642                      | 139          | 7          |           | 638          | 143          | 7          |           |
| Plastics and Articles thereof  | 104                      | 100          | 8          |           | 100          | 97           | 15         |           |
| Raw Hides and Skins, Leather   | 15                       | 59           |            |           | 14           | 60           |            |           |
| Wood and Articles of Wood      | 16                       | 67           |            |           | 15           | 67           | 1          |           |
| Pulp Wood                      | 37                       | 110          |            |           | 36           | 110          | 2          |           |
| Textiles and Textile Articles  | 98                       | 616          | 111        |           | 78           | 635          | 112        |           |
| Footwear, Headgear, Umbrellas  | 4                        | 53           |            |           | 2            | 55           |            |           |
| Articles of Stone and Plaster  | 8                        | 134          | 5          |           | 7            | 135          | 5          |           |
| Natural and Cultured Pearls    |                          | 52           |            |           |              | 52           |            |           |
| Base Metals                    |                          | 389          | 34         |           |              | 381          | 45         |           |
| Machinery                      |                          | 658          | 14         |           |              | 662          | 14         |           |
| Vehicles, Aircraft, Vessels    |                          | 138          |            |           |              | 135          | 14         |           |
| Optical Equipment              | 2                        | 235          |            |           | 2            | 235          |            |           |
| Arms and Ammunition            |                          |              |            | 17        | 5            |              |            | 17        |
| Misc. Manufactured Articles    | 10                       | 122          | 2          |           | 1            | 124          | 5          |           |
| Works of Art                   | 1                        | 7            |            |           |              | 7            |            |           |

Source: WTO Secretariat based on data submitted by the parties

Table 4.4 shows that, as agreed, SACU would front-load its tariff phase down. By 2000, it had moved to zero tariffs on 63,8 per cent and by 2006 had achieved almost 99 per cent duty free entry of SADC imports. Textiles and textile articles took the longest to be liberalised, but it should be noted that there was a special agreement for LDCs. While this showed a sense of leadership on the part of South Africa, commentators are of the view that South Africa still protected its market through the product-specific rules of origin.



**Table 4.4:** *SACU – Tariff treatment applied to RSA and to other SADC members*

| HS section                     | Duty free in |           |            |          |            |              |            | Reduced   | Excluded  |
|--------------------------------|--------------|-----------|------------|----------|------------|--------------|------------|-----------|-----------|
|                                | 2000         | 2001      | 2002       | 2003     | 2004       | 2005         | 2006       |           |           |
| <b>Total</b>                   | <b>4 940</b> | <b>43</b> | <b>630</b> | <b>7</b> | <b>359</b> | <b>1 405</b> | <b>360</b> | <b>27</b> | <b>31</b> |
| Live Animals; Animal Products  | 148          |           | 53         |          | 42         |              |            |           |           |
| Vegetable Products             | 271          |           | 46         |          | 11         | 2            |            |           |           |
| Animal or Vegetable Fat, Oils  | 44           |           |            |          | 11         |              |            |           |           |
| Prepared Foodstuffs, Beverages | 147          |           | 97         |          | 56         |              |            |           | 17        |
| Mineral Products               | 173          |           | 4          |          |            |              |            |           |           |
| Products of Chem. Industries   | 876          |           | 42         |          |            |              |            |           |           |
| Plastics and Articles thereof  | 385          |           | 61         |          | 14         |              |            |           |           |
| Raw Hides and Skins, Leather   | 55           |           | 1          |          | 19         |              |            |           |           |
| Wood and Articles of Wood      | 84           |           | 8          |          | 5          |              |            |           |           |
| Pulp Wood                      | 162          |           | 11         |          |            |              |            |           |           |
| Textiles and Textile Articles  | 204          |           | 6          |          | 174        | 1 402        | 319        |           | 5         |
| Footwear, Headgear, Umbrellas  | 17           |           | 24         |          | 8          | 1            | 40         |           |           |
| Articles of Stone and Plaster  | 185          |           | 10         |          | 3          |              |            |           |           |
| Natural and Cultured Pearls    | 45           |           | 15         |          |            |              |            |           |           |
| Base Metals                    | 663          |           | 83         |          | 6          |              |            |           |           |
| Machinery                      | 969          |           | 90         |          | 2          |              |            |           |           |
| Vehicles, Aircraft, Vessels    | 142          | 43        |            |          |            |              | 1          | 27        |           |
| Optical Equipment              | 240          |           | 6          |          |            |              |            |           |           |
| Arms and Ammunition            | 19           |           | 10         |          | 3          |              |            |           |           |
| Misc. Manufactured Articles    | 102          |           | 63         |          | 5          |              |            |           |           |
| Works of Art                   | 7            |           |            |          |            |              |            |           | 9         |
| Unclassified                   | 2            |           |            |          |            |              |            |           |           |

Source: WTO Secretariat based on data submitted by the parties

Table 4.5 shows Tanzania's tariff liberalisation for the rest of SADC and South Africa. The back-loading is clear, as by 2007 Tanzania had only liberalised the same number of tariff lines as it liberalised in 2008 for the rest of SADC. For South Africa it was even worse, as it liberalised only 989 tariff lines by 2007, and the rest in 2008. The textiles sector remained a problem, as it will only be zero rated by 2012.

**Table 4.5:** *Tanzania – Tariff treatment applied to RSA and to other SADC members*

| HS Section                       | SADC Member (except RSA) |      |      |      |      |      |      | RSA          |      |      |      | Excluded to all |
|----------------------------------|--------------------------|------|------|------|------|------|------|--------------|------|------|------|-----------------|
|                                  | Duty free in             |      |      |      |      |      |      | Duty free in |      |      |      |                 |
|                                  | 2001                     | 2005 | 2006 | 2007 | 2008 | 2010 | 2012 | 2001         | 2007 | 2008 | 2012 |                 |
| Total                            | 1090                     | 425  | 1145 | 17   | 2685 | 14   | 796  | 973          | 16   | 4267 | 918  | 43              |
| Live Animals and Animal Products | 74                       | 1    | 11   |      | 116  |      | 6    | 55           |      | 143  | 10   | 8               |
| Vegetable Products               | 23                       | 31   | 19   |      | 183  | 2    | 49   | 47           |      | 202  | 58   | 1               |
| Animal or Vegetable Fat, Oils    |                          |      | 1    |      | 34   |      | 12   |              |      | 34   | 13   |                 |
| Prepared Foodstuffs, Beverages   | 8                        | 8    | 1    | 2    | 183  |      | 43   | 16           |      | 171  | 59   |                 |
| Mineral Products                 | 71                       | 16   | 14   | 15   | 53   |      | 5    | 70           |      | 99   | 5    |                 |
| Products of Chem. Industries     | 346                      | 58   | 32   |      | 378  |      | 6    | 342          |      | 471  | 7    | 1               |
| Plastics and Articles thereof    | 14                       | 13   | 148  |      | 49   | 2    | 16   | 18           |      | 163  | 62   |                 |
| Raw Hides and Skins, Leather     | 22                       |      |      |      | 58   |      |      | 22           |      | 58   |      |                 |
| Wood and Articles of Wood        | 15                       | 2    | 8    |      | 64   |      | 20   | 14           |      | 75   |      |                 |
| Pulp Wood                        | 13                       | 3    | 1    |      | 120  |      |      | 12           |      | 97   | 48   |                 |
| Textiles and Textile Articles    | 261                      | 52   | 2    |      | 142  |      | 569  | 142          |      | 333  | 552  |                 |
| Footwear, Headgear, Umbrellas    | 2                        |      |      |      | 55   |      | 7    | 1            |      | 27   | 29   |                 |
| Articles of Stone and Plaster    | 14                       | 4    | 25   |      | 120  |      |      | 14           |      | 146  | 10   |                 |
| Natural and Cultured Pearls      | 49                       |      |      |      |      |      |      | 49           |      |      |      |                 |
| Base Metals                      | 119                      | 15   | 155  |      | 310  | 2    | 32   | 117          |      | 489  | 27   |                 |
| Machinery                        | 6                        | 150  | 440  |      | 581  |      | 2    |              |      | 117  | 2    |                 |
| Vehicles, Aircraft, Vessels      | 50                       | 25   | 84   |      | 33   | 7    | 28   | 52           | 1    | 139  | 35   |                 |

Table 4.5 (cont.)

| HS Section                  | SADC Member (except RSA) |      |      |      |      |      |      | RSA          |      |      |      | Excluded to all |
|-----------------------------|--------------------------|------|------|------|------|------|------|--------------|------|------|------|-----------------|
|                             | Duty free in             |      |      |      |      |      |      | Duty free in |      |      |      |                 |
|                             | 2001                     | 2005 | 2006 | 2007 | 2008 | 2010 | 2012 | 2001         | 2007 | 2008 | 2012 |                 |
| Optical Equipment           |                          | 44   | 177  |      | 61   |      |      |              | 15   | 267  |      |                 |
| Arms and Ammunition         |                          |      |      |      |      |      |      |              |      |      |      | 33              |
| Misc. Manufactured Articles | 3                        | 3    | 27   |      | 138  |      | 1    | 2            |      | 169  | 1    |                 |
| Works of Art                |                          |      |      |      | 7    |      |      |              |      | 7    |      |                 |

Source: WTO Secretariat based on data submitted by the parties

Table 4.6 shows Zambia's liberalisation process is in line with the other LDCs, which back-loaded their tariff phase downs.

Table 4.6: Zambia – Tariff treatment applied to RSA and to other SADC members

| HS section                       | SADC member (except RSA) |              |            | RSA          |            |              |            |
|----------------------------------|--------------------------|--------------|------------|--------------|------------|--------------|------------|
|                                  | Duty free in             |              |            | Duty free in |            |              |            |
|                                  | 2001                     | 2006         | 2012       | 2001         | 2006       | 2008         | 2012       |
| <b>Total</b>                     | <b>3 287</b>             | <b>2 529</b> | <b>250</b> | <b>1 948</b> | <b>479</b> | <b>3 385</b> | <b>254</b> |
| Live Animals and Animal Products | 171                      | 46           | 19         | 55           |            | 162          | 19         |
| Vegetable Products               | 117                      | 181          | 8          | 88           | 6          | 204          | 8          |
| Animal or Vegetable Fat, Oils    | 16                       | 35           |            | 3            | 15         | 33           |            |
| Prepared Foodstuffs, Beverages   | 35                       | 175          | 1          | 35           | 11         | 164          | 1          |
| Mineral Products                 | 95                       | 48           | 23         | 5            | 86         | 50           | 25         |
| Products of Chem. Industries     | 940                      | 162          | 3          | 653          | 12         | 437          | 3          |
| Plastics and Articles thereof    | 298                      | 214          |            | 292          | 1          | 219          |            |
| Raw Hides and Skins, Leather     | 18                       | 56           |            | 18           |            | 56           |            |
| Wood and Articles of Wood        | 67                       | 20           |            | 19           |            | 68           |            |
| Pulp Wood                        | 105                      | 50           | 2          | 60           | 11         | 84           | 2          |
| Textiles and Textile Articles    | 342                      | 438          | 131        | 207          | 43         | 528          | 133        |
| Footwear, Headgear, Umbrellas    | 2                        | 25           | 29         | 1            | 1          | 25           | 29         |
| Articles of Stone and Plaster    | 76                       | 71           |            |              | 29         | 118          |            |

**Table 4.6** (*cont.*)

| HS section                  | SADC member<br>(except RSA) |      |      |              |      |      |      | RSA |  |  |  |
|-----------------------------|-----------------------------|------|------|--------------|------|------|------|-----|--|--|--|
|                             | Duty free in                |      |      | Duty free in |      |      |      |     |  |  |  |
|                             | 2001                        | 2006 | 2012 | 2001         | 2006 | 2008 | 2012 |     |  |  |  |
| Natural and Cultured Pearls | 1                           | 55   |      | 1            |      | 55   |      |     |  |  |  |
| Base Metals                 | 412                         | 195  | 2    | 213          | 28   | 366  | 2    |     |  |  |  |
| Machinery                   | 414                         | 397  |      | 162          | 220  | 429  |      |     |  |  |  |
| Vehicles, Aircraft, Vessels | 76                          | 53   | 31   | 53           | 16   | 60   | 31   |     |  |  |  |
| Optical Equipment           | 86                          | 184  |      | 74           |      | 196  |      |     |  |  |  |
| Arms and Ammunition         |                             |      |      |              |      |      |      |     |  |  |  |
| Misc. Manufactured Articles | 8                           | 124  | 1    | 1            |      | 131  | 1    |     |  |  |  |
| Works of Art                | 8                           |      |      | 8            |      |      |      |     |  |  |  |

Source: WTO Secretariat based on data submitted by the parties

The next two tables portray Zimbabwe. Table 4.7 shows liberalisation towards other SADC countries. The phase downs were more spread than in other countries, indicating the mid-loading scenario. Given its economic problems, including in gazetting the instruments, it managed to achieve the required liberalisation levels of above 85 per cent by 2008. For liberalisation with South Africa, as shown in Table 4.8, the textiles and clothing tariff lines took longer to deal with.

**Table 4.7:** *Zimbabwe – Tariff treatment applied to SADC members, except RSA*

| HS section                       | Duty free in |            |            |            |            |          |             |            |          |            |            | Excluded  |
|----------------------------------|--------------|------------|------------|------------|------------|----------|-------------|------------|----------|------------|------------|-----------|
|                                  | 2001         | 2003       | 2004       | 2005       | 2006       | 2007     | 2008        | 2009       | 2010     | 2011       | 2012       |           |
| <b>Total</b>                     | <b>2199</b>  | <b>968</b> | <b>888</b> | <b>991</b> | <b>114</b> | <b>3</b> | <b>1250</b> | <b>240</b> | <b>9</b> | <b>128</b> | <b>264</b> | <b>92</b> |
| Live Animals and Animal Products | 133          | 1          | 2          | 26         | 2          |          | 154         |            |          |            |            |           |
| Vegetable Products               | 118          | 51         | 15         | 45         | 8          |          | 117         | 2          |          |            | 2          |           |
| Animal or Vegetable Fat, Oils    | 24           | 26         | 1          | 2          |            |          | 22          |            |          |            |            |           |

Table 4.7 (cont.)

| HS section                     | Duty free in |      |      |      |      |      |      |      |      |      |      | Excluded |
|--------------------------------|--------------|------|------|------|------|------|------|------|------|------|------|----------|
|                                | 2001         | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |          |
| Prepared Foodstuffs, Beverages | 34           | 19   | 5    | 32   | 31   |      | 124  | 2    | 9    | 1    | 70   |          |
| Mineral Products               | 140          | 22   | 10   | 2    | 13   |      | 1    | 2    |      |      |      | 7        |
| Products of Chem. Industries   | 572          | 15   | 26   | 32   | 2    | 3    | 39   | 198  |      |      | 15   | 9        |
| Plastics and Articles thereof  | 124          | 40   | 65   | 68   | 3    |      | 33   |      |      |      | 2    | 9        |
| Raw Hides and Skins, Leather   | 21           | 28   |      |      |      |      | 27   |      |      |      |      |          |
| Wood and Articles of Wood      | 22           | 35   | 1    | 33   |      |      | 27   |      |      |      |      |          |
| Pulp Wood                      | 73           | 18   | 32   | 59   |      |      | 51   |      |      | 2    | 17   |          |
| Textiles and Textile Articles  | 80           | 472  | 155  | 316  | 1    |      | 308  | 35   |      |      |      | 1        |
| Footwear, Headgear, Umbrellas  | 1            | 2    |      | 6    | 6    |      | 62   |      |      |      |      |          |
| Articles of Stone and Plaster  | 16           | 25   | 10   | 71   | 3    |      | 41   |      |      |      | 7    |          |
| Natural and Cultured Pearls    | 24           | 10   |      | 9    |      |      | 20   |      |      | 1    |      | 4        |
| Base Metals                    | 159          | 69   | 165  | 93   | 14   |      | 42   |      |      | 120  | 82   |          |
| Machinery                      | 430          | 88   | 291  | 73   | 7    |      | 82   | 1    |      |      | 55   |          |
| Vehicles, Aircraft, Vessels    | 82           | 35   | 30   | 25   |      |      |      |      |      | 4    | 14   | 37       |
| Optical Equipment              | 129          | 19   | 77   | 61   |      |      | 11   |      |      |      |      |          |
| Arms and Ammunition            |              |      |      |      |      |      |      |      |      |      |      | 25       |
| Misc. Manufactured Articles    | 11           | 8    | 3    | 38   | 24   |      | 92   |      |      |      |      |          |
| Works of Art                   | 6            |      |      |      |      |      | 2    |      |      |      |      |          |

Source: WTO Secretariat based on data submitted by the parties

**Table 4.8:** *Zimbabwe – Tariff treatment applied to RSA only, by HS Section*

| HS section                       | Duty free in |           |           |            |            |            |              |           |           |            | Excluded  |
|----------------------------------|--------------|-----------|-----------|------------|------------|------------|--------------|-----------|-----------|------------|-----------|
|                                  | 2001         | 2003      | 2004      | 2005       | 2006       | 2007       | 2008         | 2009      | 2010      | 2011       |           |
| <b>Total</b>                     | <b>2 298</b> | <b>14</b> | <b>37</b> | <b>840</b> | <b>379</b> | <b>502</b> | <b>1 157</b> | <b>18</b> | <b>41</b> | <b>693</b> | <b>35</b> |
| Live Animals and Animal Products | 135          |           |           | 1          |            | 24         | 84           |           |           | 61         |           |
| Vegetable Products               | 91           |           |           | 61         | 10         | 7          | 56           | 1         | 5         | 69         |           |
| Animal or Vegetable Fat, Oils    | 20           |           |           | 20         | 1          | 2          | 3            |           |           | 19         |           |
| Prepared Foodstuffs, Beverages   | 27           |           |           | 24         | 17         | 18         | 99           | 1         |           | 82         |           |
| Mineral Products                 | 111          |           |           | 26         | 5          | 14         | 2            |           | 4         | 7          | 1         |
| Products of Chem. Industries     | 625          | 5         | 27        | 46         | 23         | 23         | 47           |           |           | 26         |           |
| Plastics and Articles thereof    | 83           |           | 1         | 51         | 41         | 37         | 20           |           | 5         | 26         |           |
| Raw Hides and Skins, Leather     | 11           |           |           | 38         |            |            | 25           |           |           |            |           |
| Wood and Articles of Wood        | 21           |           |           | 25         |            | 18         | 20           |           |           | 8          |           |
| Pulp Wood                        | 61           |           |           | 23         | 21         | 27         | 10           | 7         |           | 46         |           |
| Textiles and Textile Articles    | 107          |           | 1         | 175        | 95         | 9          | 538          |           |           | 23         |           |
| Footwear, Headgear, Umbrellas    | 1            |           |           | 2          |            | 5          | 43           |           | 1         | 4          |           |
| Articles of Stone and Plaster    | 15           |           |           | 26         | 14         | 51         | 30           |           |           | 15         | 1         |
| Natural and Cultured Pearls      | 25           |           |           | 8          |            | 9          | 1            | 3         |           | 11         |           |
| Base Metals                      | 210          |           | 5         | 100        | 45         | 130        | 82           |           | 1         | 61         | 1         |
| Machinery                        | 487          | 2         | 2         | 178        | 26         | 43         | 80           | 2         |           | 88         |           |
| Vehicles, Aircraft, Vessels      | 84           | 7         |           | 3          | 4          | 13         | 5            |           | 4         | 36         | 32        |
| Optical Equipment                | 166          |           |           | 24         | 6          | 48         | 6            |           |           | 23         |           |
| Arms and Ammunition              | 3            |           | 1         | 2          | 10         | 5          |              |           |           |            |           |
| Misc. Manufactured Articles      | 10           |           |           | 7          | 1          | 19         | 6            | 4         | 21        | 86         |           |
| Works of Art                     | 5            |           |           |            |            |            |              |           |           | 2          |           |

Source: WTO Secretariat based on data submitted by the parties

Madagascar acceded to the Trade Protocol soon after joining SADC in 2005, and has since started implementing its tariff reduction schedules. Table 4.9 shows Madagascar's liberalisation schedule, which indicates that, for all goods originating from SADC, 16,4 per cent of the total HS 8-digit tariff lines attract duty, while 83,6 per cent of the tariff lines are duty free as of January 2008.

**Table 4.9:** *Madagascar – Tariff treatment applied to other SADC members, by HS section*

| HS description                   | Tariff lines attracting duty SADC |       | Tariff lines attracting duty RSA |       | Total number of tariff lines |
|----------------------------------|-----------------------------------|-------|----------------------------------|-------|------------------------------|
| Live Animals and Animal Products | 161                               | 62%   | 161                              | 62%   | 259                          |
| Vegetable Products               | 140                               | 43%   | 140                              | 43%   | 319                          |
| Animal or Vegetable Fat, Oils    | 29                                | 51%   | 29                               | 51%   | 56                           |
| Prepared Foodstuffs, Beverages   | 187                               | 75%   | 187                              | 75%   | 249                          |
| Mineral Products                 | 108                               | 40%   | 108                              | 40%   | 271                          |
| Products of Chem. Industries     | 118                               | 13%   | 118                              | 13%   | 937                          |
| Plastics and Articles thereof    | 17                                | 67%   | 17                               | 67%   | 254                          |
| Raw Hides and Skins, Leather     | 5                                 | 4,5%  | 5                                | 4,5%  | 111                          |
| Wood and Articles of Wood        | 1                                 | 0,9%  | 1                                | 0,9%  | 105                          |
| Pulp Wood                        | 5                                 | 3%    | 5                                | 3%    | 178                          |
| Textiles and Textile Articles    | 26                                | 2%    | 26                               | 2%    | 1 091                        |
| Footwear, Headgear, Umbrellas    | 1                                 | 1,2%  | 1                                | 1,2%  | 66                           |
| Articles of Stone and Plaster    | 0                                 | 0%    | 0                                | 0%    | 151                          |
| Natural and Cultured Pearls      | 26                                | 36%   | 26                               | 36%   | 72                           |
| Base Metals                      | 31                                | 5%    | 31                               | 5%    | 619                          |
| Machinery                        | 19                                | 2%    | 19                               | 2%    | 840                          |
| Vehicles, Aircraft, Vessels      | 47                                | 23%   | 47                               | 23%   | 207                          |
| Optical Equipment                | 0                                 | 0%    | 0                                | 0%    | 265                          |
| Arms and Ammunition              | 22                                | 100%  | 22                               | 100%  | 22                           |
| Misc. Manufactured Articles      | 50                                | 31%   | 50                               | 31%   | 162                          |
| Works of Art                     | 35                                | 94,5% | 35                               | 94,5% | 37                           |

It should be noted that the tables cover the eleven countries that started implementing the protocol in 2000. Angola and DRC have not yet joined the SADC FTA, despite having participated in most of the negotiations. The commitment to reduce the tariff schedules has, however, been hon-

oured differentially by all participating member states. For instance, SACU countries have reduced tariffs beyond the committed levels, while some countries, which were back-loading their phase-down schedules, have not done so.<sup>6,7</sup> Generally, Table 4.10 indicates that just before the launch of the SADC FTA, in August 2008, most countries had done well in implementing their tariff phase-down commitments, with ten member states ready to fully participate, two likely to fully participate later, and two others yet to clarify their possible participation.<sup>8</sup>

**Table 4.10:** *Summary of progress in implementing SADC tariff phase-down schedules*

| Country    | Description of progress in implementing tariff phase-down                                                                                                                                                      |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Angola     | Not yet participating                                                                                                                                                                                          |
| Madagascar | Acceded in 2004, required to meet the target of 85% of trade at 0% tariff by 2012                                                                                                                              |
| Malawi     | Has only implemented two reductions – 2001 and 2004 (implemented in 2007); probability of not meeting the 2008 FTA deadline is high                                                                            |
| Mauritius  | On course for FTA, but has introduced specific duties in place of ad-valorem for some sensitive products (category C)                                                                                          |
| Mozambique | Gazetted whole schedule at one time, on course for FTA, but needs to deal with some applied rates being higher than indicated on offer, as a result of unilateral Most Favoured Nation (MFN) tariff reductions |
| SACU       | Implemented all 2008 commitments                                                                                                                                                                               |
| Tanzania   | Has complied, but introduced complications with a 2% levy on goods into Zanzibar                                                                                                                               |
| Zambia     | Implemented reductions for 2008, on course for FTA                                                                                                                                                             |
| Zimbabwe   | Implemented general offer (to South Africa) and differential offer (to all SADC countries except South Africa) in 2008; some mistakes made are still to be corrected; on course for FTA                        |

Source: ECA, 2008

In the implementation process, the SADC Trade Negotiation Forum has focused on the reduction of customs duties on intra-SADC trade and the adoption of common rules of origin. Nevertheless, most trade in the sub-region has been (and is still) taking place under bilateral arrangements, as well as under COMESA FTA arrangements for those SADC member states which are also members of the COMESA FTA. The option to trade more under COMESA and bilateral agreements is due to the fact that SADC rules of origin are still considered rather restrictive.



## Rules of origin under SADC FTA

The original rules of origin designed for SADC FTAs were very simple and closely aligned to the COMESA ones, with wholly originating requirements for primary and agricultural products and 35 per cent value added on all processed and manufactured products. However, during the negotiations for tariff reductions it emerged that some countries were not comfortable with the rules of origin and preferred to have product-specific rules. The reasons for this approach were to protect each other from the possibilities of trans-shipment, promote regional value addition through local processing, and encourage the use of regional raw materials, as cumulation was allowed.

It is a fact that the SADC economies are still heavily dependent on agriculture and other primary products, and so these sectors remain important to all countries in the region. For primary agricultural products, the general rule common to many PTAs in all parts of the world is that the goods must be wholly produced in a member state in order to qualify for SADC preferences. Assuming that this can be properly enforced, it could certainly be sufficient to prevent trade deflection in agricultural products.

There was strong pressure, particularly from governments and other private sector lobbyists, to use rules of origin to encourage the use of local raw materials in downstream processing industries. The import of this was to direct the way industry was meant to go and to move towards regional self and collective reliance through increased manufactured output. The belief that the use of regional raw materials will protect and/or encourage the development of local agriculture could have various interpretations. Indeed, such a requirement will provide protection even for the uncompetitive and inefficient producers. However, without such a requirement, processors, especially in member states with low agricultural tariffs, will substitute international for regional raw materials, as the regional raw materials become cheaper with the removal of tariffs. Restrictive rules of origin on processed products will increase demand for regional agricultural products that feed into the processing industry. Restrictive rules of origin that require the use of regionally produced raw materials in processed products will encourage greater regional value added in agriculture. They will encourage further downstream processing rather than exporting of unprocessed raw materials. These arguments make sense when looking at value addition on agricultural output and other primary products.

The use of these restrictive rules of origin, even in cases where the region does not have any capacity to produce and supply adequately, led to prolonged discussions on the rules of origin for wheat flour products. A lot of resources were wasted in doing studies, which member states continued to discredit on the basis of political expediency.

Restrictive rules of origin on other products tended to make it extremely difficult for some countries to meet the requirements, as the cost of compliance is usually not taken seriously into account. It was noted that lack of investment capital in many LDCs made it impossible for these countries to take advantage of the market, based on these rules of origin. The restrictive rules of origin were merely protecting South African industry against competition in the region, since it had the capacity and technology to venture into new areas of processing and manufacturing. There is a very fine line between development-oriented rules of origin and protectionist rules. Negotiators have to be extra careful in their approach to avoid stifling industrial development and growth through rules of origin. There have been some amendments to the rules of origin, as of October 2008, and they still have to be tested in terms of how industry reacts to their implementation.

## Structure of SADC exports

Comparative statistics of the structure of regional exports between 2000 (when the region started implementing the protocol) and 2006 show that about 90 per cent of the export structure remained nearly the same and was dominated by mineral fuels and oils, and pearls and precious metals, each accounting for 20,3 per cent and 19,2 per cent respectively. Evidence from Table 4.11 generally indicates that when SADC started implementing its protocol, regional top exports were concentrated in ten products, which accounted for more than 60 per cent of total exports, and other products contributing close to 40 per cent. Generally, all top products in 2006 were still the same as in 2000, with the exception of copper products, electrical and electronic equipment, and horticultural products. Entry into the top ten by these products, plus gains by the top two, has ensured that SADC intensified its concentration. In this period, the ten products account for nearly 80 per cent of the total exports. Most of the activities are still linked to mining.<sup>9</sup>

**Table 4.11:** *SADC exports by products (value and share) in 2000 and 2006*

| Rank | 2000                             |                 |                       | 2006                                |                 |                       |
|------|----------------------------------|-----------------|-----------------------|-------------------------------------|-----------------|-----------------------|
|      | Products                         | Value (US\$ bn) | Share of products (%) | Products                            | Value (US\$ bn) | Share of products (%) |
|      | Total                            | 51,3            | 100                   | Total                               | 113,5           | 100                   |
| 1    | Mineral fuels and oils           | 10,5            | 20,3                  | Mineral fuels and oils              | 37,4            | 32,9                  |
| 2    | Pearls and precious metals       | 9,8             | 19,2                  | Pearls and precious metals          | 21,9            | 19,3                  |
| 3    | Iron and steel                   | 3,6             | 7,1                   | Iron and steel                      | 6,8             | 6,0                   |
| 4    | Vehicles                         | 1,9             | 3,7                   | Vehicles                            | 5,0             | 4,4                   |
| 5    | Machinery                        | 1,8             | 3,5                   | Machinery                           | 4,9             | 4,3                   |
| 6    | Ores, slag and ash               | 1,2             | 2,4                   | Copper products                     | 4,3             | 3,7                   |
| 7    | Aluminium products               | 1,0             | 1,9                   | Ores, slag and ash                  | 4,0             | 3,5                   |
| 8    | Clothing apparel and accessories | 0,9             | 1,8                   | Aluminium products                  | 3,4             | 3,0                   |
| 9    | Tobacco products                 | 0,9             | 1,7                   | Electrical and electronic equipment | 1,6             | 1,4                   |
| 10   | Inorganic chemicals              | 0,9             | 1,7                   | Horticultural products              | 1,4             | 1,2                   |
|      | Others                           | 18,9            | 36,8                  | Others                              | 23,0            | 20,3                  |

Source: Kalaba and Tsedu (2008: 7)

Thus, in the region's top-ten exports at the beginning and towards the end of the implementation period, product composition is exclusively dominated by non-food products, which have little direct impact on poverty reduction. According to the SADC Regional Food Security Bulletin 2007, the region considers maize, wheat, rice, millet and cassava as the products which constitute its food security basket, and hence most important in alleviating poverty.

Given this scenario, this study concludes that the pattern of trade under the SADC TP is not designed to address poverty reduction, as most of those products relevant for poverty reduction, in particular food products, still remain outside the scope of traded goods.

## Dynamics of intra-SADC trade

Overall, SADC's total exports by value more than doubled between 2000 and 2006. As Table 4.12 shows, the region's total exports were US\$5,58 billion in 2000 and, by end of 2006, the value of exports was US\$10,84 billion. This represents more than 100 per cent growth between 2000 and 2006. SADC's exports have been growing at a higher rate owing to an increase in international oil prices, as well as the stabilisation of the Angolan economy, which is the second largest producer of oil in sub-Saharan Africa, after Nigeria. In 2000, Angola was producing fewer than 800 barrels per day, but by the year 2006 its output was 1,9 million barrels a day.<sup>10</sup>

**Table 4.12:** *SADC exports to major destinations in US\$ billion from 2000 to 2006*

| Destination             | Value of SADC exports in US\$ billion |       |       |       |       |       |        | Annual growth (%) |
|-------------------------|---------------------------------------|-------|-------|-------|-------|-------|--------|-------------------|
|                         | 2000                                  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006   |                   |
| World                   | 51,29                                 | 48,97 | 50,74 | 61,01 | 77,59 | 94,33 | 113,63 | 116               |
| EU <sup>11</sup>        | 16,74                                 | 15,67 | 15,71 | 18,03 | 23,32 | 25,78 | 27,29  | 111               |
| MERCOSUR <sup>12</sup>  | 2,15                                  | 1,10  | 1,33  | 2,47  | 5,14  | 7,18  | 11,82  | 144               |
| NAFTA <sup>13</sup>     | 7,23                                  | 7,36  | 7,73  | 7,18  | 8,58  | 10,74 | 11,11  | 108               |
| SADC                    | 5,58                                  | 5,56  | 5,73  | 7,16  | 8,99  | 10,13 | 10,84  | 114               |
| Share of SADC %         | 10,9%                                 | 11,4% | 11,3% | 12,5% | 11,6% | 10,7% | 9,5%   |                   |
| East Asia <sup>14</sup> | 8,60                                  | 7,86  | 8,19  | 11,01 | 13,37 | 19,02 | 24,73  | 121               |
| Rest of world           | 11,00                                 | 11,41 | 12,07 | 14,71 | 18,21 | 21,47 | 27,84  | 117               |

Source: Kalaba and Tsedu (2008:5)

A breakdown of exports by destination, as shown in Table 4.12, indicates that during the first year of implementation, the EU was the major destination and accounted for 33 per cent (US\$16,74 billion) of SADC's exports by value, with Eastern Asia as the second major export destination, absorbing nearly 17 per cent (US\$ 8,6 billion) of SADC's total exports. The North American Free Trade Area (NAFTA) consumed 14 per cent (US\$7,23 billion) of the total value of SADC exports, with SADC itself and the Common Markets of the South (MERCOSUR) absorbing 10,9 per cent (US\$5,58 billion) and four per cent (US\$ 2,15 billion) respectively. Intra-SADC's export share at the start of the implementation ac-

counted for 11 per cent of the total and declined to 9,5 per cent in 2006. The SADC region, in its earlier versions of the RISDP, had set targets for intra-SADC trade of 35 per cent, though diversifying and sustaining export.

One needs to see what figures will come out after the launch of the FTA in relation to the set targets. However, it will be critical that SADC works hard on improving trade facilitation as this is one area where regional trade is constrained. Because of problems associated with border clearance and documentation, some traders end up using informal means of trade. There is evidence of informal cross-border trade in SADC, particularly in agricultural products. There are several tons of maize, rice and sugar being traded informally between Malawi and Zambia, and Malawi and Mozambique, for example. There is a school of thought that asserts that there is substantial trade being conducted informally by small traders which, if captured in data, could change the whole trade picture in the region. Indeed, this is the trade that directly affects poverty, as these traders are supporting large families from their income.

The average annual growth rate of SADC exports to the selected destinations during the implementation period is shown in last column of Table 4.12. Overall, total exports for the region increased by an average of 116 per cent per annum. Surprisingly, the fastest growing exports were geared not towards SADC, but towards MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), with exports to the latter region growing at an average rate of 144 per cent per annum. This increase resulted in SADC's exports to MERCOSUR growing from US\$2,15 billion in 2000 to US\$11,8 billion in 2006. Major gains were also recorded on exports to Asia (China, India, Japan, South Korea, Macao, Mongolia and Taiwan) and NAFTA (Canada, Mexico and US).

### **Share of exports by SADC member states**

Table 4.13 shows a disaggregated export trend for each of the SADC member states during the implementation period, 2000 through to 2006. The tabulated figures gauge the response by SADC member states, in terms of their export share, to the initiatives and incentives of the Trade Protocol, thus providing some insight on how the individual regional members have contributed to regional trade, as well as to specific members. The analysis

**Table 4.13:** *Percentage of intra-SADC export share matrix: 2000 and 2006*

| Destination (%) |                        |                 |                 |                 |             |               |            |            |            |              |            |            |            |             |              |   |
|-----------------|------------------------|-----------------|-----------------|-----------------|-------------|---------------|------------|------------|------------|--------------|------------|------------|------------|-------------|--------------|---|
|                 | Ang                    | Bot             | DRC             | Les             | Mad         | Mal           | Mau        | Moz        | Nam        | RSA          | Swa        | Tan        | Zam        | Zim         | SADC         |   |
| E               | Bot<br>↑<br>0,1        |                 | ↑<br>0,1        | 0<br>0          | 0<br>0      | ↑<br>0,1      | 0<br>0     | ↑<br>0,2   | 0,2<br>0,3 | 10<br>6      | 0<br>0     | 0<br>0     | ↑<br>0,3   | 2,4<br>5,4  | 13,6<br>12,2 | ↓ |
| X               | Mad<br>0<br>0          | 0<br>0          | 0<br>0          | 0<br>0          |             | 0<br>0        | 2,3<br>1,4 | 0<br>0     | 0<br>0     | 0,5<br>1     | 0<br>0     | 0<br>0     | 0<br>0     | 0<br>0      | 2,99<br>2,5  | ↑ |
| P               | Mal<br>0<br>0          | 0,6<br>↑<br>0,2 | 0<br>0          | ↑<br>0,1        | 0<br>0,2    |               | 0,1<br>0   | 7,4<br>2,3 | 0<br>0     | 12,8<br>22,2 | 0<br>0     | 2,3<br>2   | 4,4<br>2,1 | 5,7<br>3,1  | 34<br>31,3   | ↓ |
| O               | Mau<br>0<br>0,1        | 0,1<br>↑<br>0   | 0<br>0          | ↑<br>0,1        | 0<br>4,8    | 0,1<br>↑<br>0 |            | 0<br>0,1   | 0<br>0     | 0,6<br>2,2   | 0<br>0     | 0,2<br>0,1 | 0<br>0     | 0,4<br>0,4  | 6,5<br>7,4   | ↑ |
| R               | Moz<br>0,2<br>0,1      | 0<br>0          | 0<br>0          | 0<br>0          | 0<br>↑<br>0 | 3<br>2,8      | 0<br>0     |            | 0<br>0     | 14,6<br>16,2 | 0,2<br>0,2 | 0<br>0     | ↑<br>0,1   | 17,7<br>2,9 | 35,8<br>22,4 | ↓ |
| E               | R<br>Nam<br>6,9<br>5,7 | 0,6<br>↑<br>0,5 | 0<br>1,3        | 0<br>0          | 0<br>0      | 0<br>0        | 0<br>0     | 0,1<br>0,6 |            | 25,4<br>24,7 | 0<br>0     | 0<br>0     | 0,1<br>0,2 | 0,3<br>0,1  | 33,5<br>33,2 | ↑ |
| S               | SA<br>0,2<br>1,1       | 4,5<br>↑<br>4,1 | 0,4<br>↑<br>0,6 | 1,6<br>↑<br>0,9 | 0,1<br>0,1  | 0,7<br>0,4    | 0,9<br>0,5 | 2,1<br>1,5 | 3,5<br>3,7 |              | 0,3<br>0,5 | 0,6<br>0,5 | 1,9<br>1,9 | 2,1<br>1,7  | 19,4<br>16,4 | ↑ |
| H               | Swa<br>0,6<br>0,3      | 0<br>0          | 0<br>0          | 0<br>0          | 0,2<br>0,5  | 1,1<br>0,2    | 1,4<br>0,3 | 6,3<br>3,9 | 0<br>0,2   | 59,7<br>75,3 |            | 3<br>1,3   | 0,9<br>0,2 | 3,8<br>0,4  | 76,8<br>82,2 | ↑ |
| A               | Tan<br>0<br>0,2        | 0<br>0          | ↑<br>0,4        | 0<br>0          | 0<br>0,1    | 1,1<br>1,1    | 0<br>0,1   | 0,2<br>0,7 | 0<br>0     | 1,6<br>14    | 0<br>0,1   |            | 0,9<br>1,2 | 0,4<br>0,1  | 5,3<br>18,9  | ↑ |
| R               | Zam<br>0<br>0          | 0,4<br>↑<br>0,2 | 4,4<br>↑<br>3,8 | 0<br>0,1        | 0<br>0      | 1,8<br>1,5    | 0<br>0     | 0<br>0     | 0,2<br>0,3 | 19,6<br>21,6 | 0<br>0,1   | 0,6<br>6,3 |            | 2<br>1,4    | 29,1<br>35,4 | ↑ |

Ang = Angola | Bot = Botswana | DRC = Democratic Republic of Congo | Les = Lesotho | Mad = Madagascar | Mal = Malawi | Mau = Mauritius | Moz = Mozambique | Nam = Namibia | RSA = South Africa | Tan = Tanzania | Zam = Zambia | Zim = Zimbabwe  
 Source: Kalaba and Tsedu (2008: 12–13)

is based on the calculated shares of each SADC member to other members in its total exports for the two periods, 2000 and 2006. Additionally, the analysis provides an indication of how individual members are integrating into the regional trade or economy.

The information in Table 4.13 shows the percentage shares of intra-SADC exports. This information applies to those countries that have reported data up from 2000 to 2006, with the exception of Swaziland, where the year 2005 is used to calculate the latest share. In interpreting the table, countries across the rows are the exporters from which the share of what is exported to other members is calculated. Along the columns are SADC markets where exports are destined, with each cell in the matrix table at the intersection of two countries containing two numbers. The upper number represents the share of exports to the recipient SADC member in the total exports of the exporter for the year 2000. The lower number, in bold type, is the share in the latter period, 2006. In most cells there are arrows pointing upwards or downwards. These arrows indicate direction of change of shares between the two periods. Cells that contain no arrow indicate that the share in the two periods was the same.

The column figures indicate the proportion of exports for each member going to the SADC region in the two periods under observation. For instance, in 2000, exports that were destined for the region from Botswana represented 13,6 per cent of its total exports. In 2006, Botswana's share of SADC exports had declined to 12,2 per cent. Thus, for the period 2000 to 2006, Botswana's integration into the region declined.

During the period under consideration, Swaziland had the highest share of exports destined for SADC in both periods, representing 76,8 per cent in 2000 and further rising to 82,2 per cent in 2006. On the other hand, Tanzania was integrating into the region faster than any other SADC member. Its exports to SADC as a share of total increased from 5,8 per cent in 2000 to 18,9 per cent in 2006, representing a threefold increase. This increase in share of Tanzania is due to the surge in precious metals (unwrought and semi-manufactured gold), which are exported to South Africa, probably for further destinations or beneficiation.<sup>15</sup>

The trade manifestation in SADC is currently a triangular pattern: SACU imports raw materials from non-SADC countries, and then exports the finished product to SADC countries, while other SADC countries mainly export raw material commodities to the rest of the world.<sup>16</sup> Evaluations of intra-country shares show that most of the contribution is done

through trade with South Africa. This contribution is equivalent to 70 per cent of total intra-SADC export shares in both periods.<sup>17</sup> This scenario is clearly illustrated by South Africa's SACU partners which have intra-country export shares of less than 1 per cent in both periods, except in a few cases with Zimbabwe (exports from Botswana and Swaziland), Angola (Namibia) and Mozambique (Swaziland).

The general view from intra-SADC exports is that most countries have reduced their share of exports to the region, implying that their integration into the region has been declining, rather than increasing. Outside South Africa very little trade takes place among member countries.

Wiig et al<sup>18</sup> argue that SADC as a unit is a net importer of foodstuffs and a net exporter of non-foodstuffs, which are generally destined for industrialised countries where they are further processed into finished products with the potential for re-export to the SADC region. Within SADC, some of the products exported outside the region are also imported into other SADC countries, exhibiting some potential to promote intra-regional trade in some of these commodities through trade policy reform. However, as long as further processing of these products into finished goods is not done within the SADC region, the potential for trade creation through intra-regional trade policy reform may remain elusive. Given that SADC states are still at low levels of economic development, continued specialisation in primary sectors will not bring maximum benefits of trade liberalisation compared to the dynamic sectors, like manufacturing and services. There is the possibility of polarisation where investment flows will be directed to few member states, hence creating few poles of industrialisation.

Some of the reasons for low SADC intra-regional trade include competing production structures that produce similar goods; limited production of tradable goods; import substitution policies; and imperfect market structures owing to the dominance of transnational corporations. Further, SADC integration remains mainly driven by politics rather than business. Generally, for Africa, several researchers have argued that intra-regional trade liberalisation was limited for a number of reasons, including import-substitution policies; tariff-revenue constraints; unequal distribution of the costs and benefits of integration; severe distortions in the trade regimes of many African countries; high transaction costs owing to inadequate infrastructure; limited product complementarities; institutional constraints; and conflicting goals resulting from African countries' membership of several regional groups.<sup>19,20,21,22</sup> Moreover, the complementary policies



(macroeconomic stability, appropriate exchange rate, investment policies, etc.) that are crucial to ensure that trade liberalisation promotes growth have often not been implemented.

## Conclusion

The general conclusions in this chapter can be summarised as follows:

- The common denominator, in terms of trade policy orientations and objectives of SADC countries, includes commitment to autonomous trade liberalisation; commitment to regional trade liberalisation as building blocks towards multilateralism; seeking increased market access for their exports in the world markets through the WTO; utilisation of preferential market access currently available under AGOA, ACP-EU and WTO, especially for LDCs; tariff rationalisation; reduction and unification; export-led growth and the maintenance of open markets abroad; and the use of trade defence instruments in place of NTBs.
- While volume of intra-SADC trade also doubled, the share of intra-trade as a percentage of total trade declined from 11 per cent to 9,5 per cent. Only Swaziland, Tanzania and Zambia had their shares of intra-SADC trade increase. South Africa remains the main source and destination of intra-SADC imports and exports respectively.
- The SADC TP has generally been implemented by most countries, but much of the intra-SADC trade takes place under the COMESA trade regime and bilateral arrangements.
- For most countries, sensitive products, namely exclusions from tariff liberalisation, are dominated by agricultural products, thus limiting the impact on poverty reduction. Specifically, the maize trade is not part of the 85 per cent threshold of substantially all trade liberalisation attained by 2008, as it is still part of the sensitive basket for most countries. While maize is the key poverty-reducing product consumed in the region, generally there is no free maize trade in the SADC region as countries still invoke export bans at will.
- Product specific rules of origin under the SADC TP are too trade restrictive. These rules of origin that were initially adopted to promote regional value addition through local processing, protect against the possibility of trans-shipment and encourage regional cumulation have

served to protect South African industry, which has the capacity and technology to venture into new areas of processing and manufacturing. Consequently, SADC is working on revising these rules with a view to making them simpler to use.

- More importantly, the pattern of trade liberalisation under the SADC TP is not designed to address poverty reduction, as most traded products (top ten) within the region are non-foodstuffs and not directly relevant for poverty reduction.
- There will be a need to liberalise trade in agricultural products. This should be accompanied by the harmonisation of sanitary and phytosanitary (SPS) measures with a view to reinvigorating agricultural production, especially in rural areas, which could equally be used to stimulate off-farm processing activities in rural areas, thus increasing the incomes of the people there.
- It will be necessary at some stage for SADC to beef up its statistics units, as trade statistics need to be current and accurate. There should also be a series of assessments of the cross-border trade over a longer period of time in order to determine its intensity and impact on poverty, as the people involved are poor.
- One overriding consideration in the trade policy of SADC countries as it applies to border taxes is the revenue generation of duties. For most SADC countries, tariffs are not used for industrial development but serve as the most reliable source of government revenue.

## Notes and references

- 1 Tekere. M. and Ndlela, D., 2002. *The Compatibility of Trade Policies in the Context of Current Regional Economic Integration Processes: The case of SADC*. Harare: TRADES Centre.
- 2 It is the loosest form of economic integration, which liberalises trade among member countries by **lowering** trade barriers against imports from other member countries while trade barriers against non-member countries are maintained. As such, PTAs place non-member countries at a competitive disadvantage, and divert trade from them towards member countries. This is because the duty free (even with high production costs) imports from within members may become cheaper than duty-paid (but with lower production costs) imports from non-members.

- 3 In this group, member countries **remove** both tariff and non-tariff barriers when trading with each member state. Nevertheless, each member country retains its own set of trade barriers (including customs duties) against non-member countries, and these trade barriers normally vary from one member to another. Similarly, a member may retain a separate set of barriers against imports from different non-member countries.
- 4 SADC Secretariat. 2003. 'The Regional Indicative Strategic Development Plan (RISDP). Southern African Development Community (SADC)'. March 2003. Gaborone, Botswana. Available at [www.sadc.int](http://www.sadc.int) [Accessed 17 March 2011].
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- 12 MERCOSUR consists of Argentina, Brazil, Paraguay and Uruguay.
- 13 NAFTA is made up of Canada, Mexico and United States.
- 14 East Asia consists of China, Japan, South Korea, Macao, Mongolia and Taiwan.
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# 5

## The Delink Between SADC Trade Liberalisation and Poverty Reduction

Ronald Chifamba and Fanuel Hazvina

### Pro-poor consumer and production baskets

BY DEFINING PRO-POOR CONSUMPTION AND PRODUCTION BASKETS ACROSS the SADC region, this chapter explores the link between free trade agreements (FTAs) and poverty eradication. It attempts to link the provisions in the SADC Trade Protocol (TP) and the incidence of reduced poverty through the changes that have occurred in the pattern of trade flows within SADC.

To investigate the link between SADC (FTAs) and the incidence of reduced poverty focusing on the pro-poor basket, the study uses the following trade concentration indices in intra-SADC trade:

- Regional orientation (RO) trade index
- Trade intensity index
- Revealed comparative advantage (RCA)
- Inter-industry trade ratio

These various approaches help to answer the question of whether or not the SADC FTA is appropriate for enhancing regional poverty eradication in southern Africa, and to quantify potential social costs and benefits. A consistent change in the trade pattern over the years towards reduced concentration and increased complementarity in trade would imply that there was an increase in trade as a result of the arrangements. An increase in trade would facilitate economic growth, and hence reduce poverty. The main assumption is that countries are trading using SADC arrangements, namely the origin certificate, given that, under the SADC FTA, by 2008 about 85 per cent of trade was liberalised.

### **Pro-poor consumption basket**

The pro-poor consumption basket has been defined as including maize, cooking oil, sugar, soap and clothes. The list is not exhaustive, merely indicative. These commodities are not in any way the only relevant ones in the pro-poor consumption bundle. They have, however, been selected here because they are the ones on which export and import data are readily available in the SADC trade database. Other commodities and services, such as health and water, do have trade implications because their impact on trade liberalisation is indirect.

The demand response for the chosen commodities is measured by the level of imports and local demand for these commodities. The existence of poverty when there is a supply of the commodities implies that the affected groups in society do not have the adequate resources to access the commodities. Thus, the issue of reducing poverty becomes not only an issue of increasing access to the basic commodities directly through household production, but also an issue of having access to income from different sources, then using that income to purchase food and other basic items.

Free trade in general widens the consumption possibilities of countries since they will have the opportunity to trade and obtain goods in which they have a comparative disadvantage in their production. A survey carried out by TRADES Centre shows that the prices of consumption goods had not decreased as a result of trade liberalisation. Demand for basic foodstuffs is generally expected to be inelastic. However, the demand for clothes and soap could be elastic.

### **Pro-poor production basket**

The pro-poor production basket consists of food, mainly maize. The rest, including clothing items, are usually manufactured then put on the market for sale to potential consumers. In order to assist the poor in the production of food and other basic necessities, there is a need to provide the poor with requisite finance or inputs. Microfinance provides one channel through which vulnerable groups could be empowered so that they can participate in trade, which enhances growth and subsequently reduces poverty. Production and trade at the micro level could be facilitated by formulating appropriate policies that increase economic development by improving income generating activities and employment creation. Mi-

crofinance institutions have the potential to stimulate the growth of the microenterprises and the small and medium enterprises (SME) sectors. These SMEs are generally regarded as the engine for economic growth in developing countries, and they also assist in the formalisation of the informal sector so that it becomes integrated into the mainstream economy.

## **Dynamics of pro-poor intra-SADC trade**

In an attempt to link the provisions in the SADC (FTA) arrangements and the incidence of reduced poverty, this section examines the concentration in SADC exports, changes in the pattern of intra-industry trade, revealed comparative advantage (RCA), and the changes in the degree of complementarity in trade flows that was possibly facilitated by the arrangements. A change in the trade pattern over the years towards reduced concentration and increased complementarity in trade would imply that there was an increase in trade as a result of the arrangements. Increase in trade facilitates economic growth and, hence, reduces poverty.

SADC exports are highly concentrated in a few products. Historical changes in the partner countries' exports indicate that there is some limited degree of complementarity in intra-SADC trade. The intra-trade is also highly concentrated between different countries within SADC. In such a situation, the market size argument for integration is not compelling unless transport costs are prohibitive. Indices of RCA are low and this limits the options available to change the pattern of trade unless complementary investment is put in place to promote dynamic comparative advantage. With such investment in place it might be possible for SADC to diversify into products that are not directly related to poverty, so that the countries do not have to be critically dependent on third countries for these imports. This critical dependency on non-SADC suppliers reduces prospects for the success of the FTA arrangements and reduces the capacity of the trade to reduce poverty.

Trade restrictions and domestic policy interventions often create a bias against tradables, thus retarding their rates of growth. Reduced growth rates have negative effects on poverty reduction. Countries that achieved the highest export growth rates are known to have had few trade restrictions and were open to competition and, hence, managed to become more efficient. It is possible to increase the international competitiveness

of SADC through the adoption of appropriate trade liberalisation policies and policies that create dynamic comparative advantage. Abegunrin,<sup>1</sup> Berg,<sup>2</sup> Mansoor<sup>3</sup> and Robson<sup>4</sup> discuss the problems, prospects and potential benefits of regional economic integration initiatives in Africa.

In order to assess the link between trade liberalisation and poverty, we consider the level of complementarity in the export and import pattern of intra-SADC trade in both total and pro-poor commodity items. We calculate statistical indices which measure trade complementarity, intra-industry trade and national comparative advantage to determine the extent to which SADC exports and imports support the FTA and assist in the reduction of poverty.<sup>5</sup>

A survey by TRADES Centre has revealed that there are high trade barriers and restrictive exchange controls that limit the flow of commodities from different countries.<sup>6</sup> Such restrictive controls provide incentives to falsify customs vouchers, yet these are used for the tabulation of trade statistics. Therefore, the results are dependent on the extent to which some trade might go through unofficial channels. Such data are not captured in official statistics since it is not possible to determine the magnitude of such trade, especially information on trade for Angola. The figures for DRC and Zimbabwe are not available.

SADC trade is highly concentrated with neighbouring countries. This geographic trade pattern within SADC may be influenced by transport, communication and other logistical constraints cited in the section in a survey by TRADES Centre. Tables 5.1 and 5.2 show the percentage allocation of the trade among the SADC countries for both the total and the pro-poor commodity groups.

The figures in Table 5.1 are percentages of total commodity trade flows for an exporting or importing country to or from a given member country. The second column indicates the reporting country. The third column shows the trading partner. The following figures from the tables will be exemplary. Table 5.1 shows that, in the year 2000, 58 per cent of exports from Botswana went to South Africa and 34 per cent to Zimbabwe. The table also shows that, in the same year, 95 per cent of imports to Botswana originated from South Africa. This can be compared to only four per cent that was sourced from Zimbabwe (not shown in the table). In 2006, 48 per cent of Botswana's exports went to South Africa, whereas 44 per cent went to Zimbabwe. Imports from Zimbabwe to Botswana went down to two per cent in the same year (also not shown in the table). Lesotho is



almost wholly dependent on South Africa for both its exports and imports. The bulk of imports for Mauritius are sourced from South Africa. The table suggests a lack of complementarity in the trade patterns of the countries, which indicates that some countries in the group are benefiting more than others. This suggests that there might be an incentive to trade with countries outside SADC unless the protocols are strengthened to stop that from happening. However, this also requires that the countries sourcing imports from the FTA should also invest in capacity so that they also produce for exporting to the member countries.

**Table 5.1:** *Orientations of intra-SADC trade 2000–2006 (%)*

| Trade Flow | From       | To         | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------|------------|------------|------|------|------|------|------|------|------|
| Export     | Botswana   | RSA        | 58   | 63   | 71   | 72   | 70   | 65   | 48   |
| Export     | Botswana   | Zambia     | 4    | 3    | 2    | 1    | 1    | 2    | 3    |
| Export     | Botswana   | Zimbabwe   | 34   | 32   | 25   | 25   | 28   | 30   | 44   |
| Import     | Botswana   | RSA        | 95   | 95   | 97   | 98   | 97   | 97   | 97   |
| Export     | Lesotho    | RSA        | 100  | 99   | 100  | 100  | 100  | na   | na   |
| Import     | Lesotho    | RSA        | 99   | 100  | 99   | 100  | 100  | 0    | 0    |
| Export     | Madagascar | Mauritius  | 82   | 60   | 95   | 71   | 88   | 72   | 57   |
| Export     | Madagascar | RSA        | 15   | 38   | 5    | 27   | 10   | 21   | 40   |
| Import     | Madagascar | Mauritius  | 62   | 41   | 32   | 29   | 28   | 51   | 30   |
| Import     | Madagascar | RSA        | 37   | 56   | 63   | 63   | 60   | 40   | 56   |
| Export     | Malawi     | Mozambique | 22   | 27   | na   | 6    | 7    | 12   | 7    |
| Export     | Malawi     | RSA        | 38   | 40   | na   | 69   | 64   | 67   | 71   |
| Export     | Malawi     | Tanzania   | 9    | 11   | na   | 0    | 7    | 4    | 3    |
| Export     | Malawi     | Zambia     | 13   | 8    | na   | 17   | 9    | 11   | 7    |
| Export     | Malawi     | Zimbabwe   | 17   | 13   | na   | 6    | 8    | 4    | 10   |
| Import     | Malawi     | RSA        | 77   | 77   | 72   | 69   | 55   | 53   | 60   |
| Import     | Malawi     | Zimbabwe   | 12   | 11   | 10   | 11   | 8    | 12   | 6    |
| Export     | Mauritius  | Malawi     | 6    | 0    | 5    | 1    | 1    | 0    | 0    |
| Export     | Mauritius  | Mozambique | 5    | 5    | 5    | 5    | 7    | 4    | 2    |
| Export     | Mauritius  | RSA        | 43   | 53   | 56   | 73   | 63   | 78   | 84   |
| Export     | Mauritius  | Tanzania   | 12   | 12   | 10   | 6    | 13   | 8    | 2    |
| Export     | Mauritius  | Zimbabwe   | 28   | 26   | 20   | 9    | 8    | 5    | 3    |

Table 5.1 (cont.)

| Trade Flow | From       | To         | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------|------------|------------|------|------|------|------|------|------|------|
| Import     | Mauritius  | RSA        | 95   | 94   | 91   | 93   | 90   | 88   | 90   |
| Export     | Mozambique | Malawi     | 8    | 7    | 6    | 13   | 17   | 13   | 5    |
| Export     | Mozambique | RSA        | 41   | 69   | 72   | 66   | 72   | 73   | 74   |
| Export     | Mozambique | Zimbabwe   | 50   | 24   | 21   | 11   | 9    | 13   | 17   |
| Import     | Mozambique | RSA        | 95   | 94   | 90   | 91   | 92   | 91   | 92   |
| Export     | Namibia    | Angola     | 21   | 19   | 36   | 43   | 26   | 18   | 17   |
| Export     | Namibia    | Botswana   | 2    | 2    | 1    | 1    | 1    | 1    | 1    |
| Export     | Namibia    | RSA        | 76   | 77   | 62   | 55   | 69   | 76   | 74   |
| Import     | Namibia    | RSA        | 99   | 99   | 99   | 98   | 98   | 98   | 98   |
| Export     | RSA        | Angola     | 6    | 10   | 11   | 13   | 12   | 11   | 13   |
| Export     | RSA        | Zimbabwe   | 22   | 21   | 23   | 24   | 23   | 24   | 21   |
| Export     | RSA        | Zambia     | 21   | 19   | 17   | 15   | 18   | 17   | 22   |
| Export     | RSA        | Malawi     | 8    | 7    | 7    | 6    | 6    | 5    | 5    |
| Export     | RSA        | Mozambique | 23   | 23   | 20   | 21   | 19   | 20   | 17   |
| Export     | RSA        | Mauritius  | 9    | 8    | 8    | 8    | 7    | 7    | 6    |
| Export     | RSA        | Tanzania   | 6    | 6    | 6    | 7    | 9    | 9    | 8    |
| Import     | RSA        | Zimbabwe   | 54   | 52   | 52   | 63   | 43   | 42   | 44   |
| Import     | RSA        | Zambia     | 12   | 15   | 19   | 13   | 15   | 18   | 18   |
| Import     | RSA        | Malawi     | 12   | 12   | 12   | 9    | 7    | 6    | 5    |
| Import     | RSA        | Mozambique | 15   | 11   | 10   | 7    | 3    | 3    | 3    |
| Export     | Swaziland  | Angola     | 66   | 45   | 59   | 60   | 69   | 90   | na   |
| Export     | Swaziland  | Botswana   | 64   | 44   | 57   | 56   | 67   | 87   | na   |
| Export     | Swaziland  | Swaziland  | 13   | 8    | 20   | 24   | 17   | 16   | na   |
| Import     | Swaziland  | RSA        | 99   | 99   | 99   | 99   | 99   | 99   | na   |
| Export     | Tanzania   | DRC        | 14   | 27   | 22   | 24   | 7    | 4    | 8    |
| Export     | Tanzania   | Malawi     | 22   | 18   | 24   | 10   | 8    | 2    | 6    |
| Export     | Tanzania   | RSA        | 33   | 27   | 23   | 40   | 75   | 86   | 74   |
| Export     | Tanzania   | Zambia     | 16   | 19   | 24   | 19   | 4    | 3    | 6    |
| Export     | Tanzania   | Zimbabwe   | 8    | 1    | 2    | 4    | 1    | 0    | 0    |
| Import     | Tanzania   | RSA        | 56   | 88   | 87   | 92   | 90   | 90   | 91   |
| Import     | Tanzania   | Swaziland  | 5    | 6    | 8    | 5    | 5    | 5    | 3    |
| Import     | Tanzania   | Tanzania   | 35   | 0    | 0    | 0    | 0    | 0    | 0    |
| Export     | Zambia     | RSA        | 67   | 76   | 63   | 49   | 51   | 47   | 61   |
| Export     | Zambia     | Tanzania   | 2    | 1    | 17   | 29   | 16   | 13   | 18   |
| Export     | Zambia     | Zimbabwe   | 7    | 6    | 4    | 4    | 12   | 10   | 4    |

Table 5.2 shows the corresponding situation for the total amount of pro-poor commodities that are traded within SADC. The first column indicates whether the flow is an export or import. The second column indicates the reporting country. The third column indicates the trading partner. The numbers in the table are percentages of pro-poor commodities trade of the total trade by individual member countries. The percentages in this group show a similar trend to that of total exports and imports. Both exports and imports of the pro-poor commodities do not dominate the trade even though the geographic pattern of trade is maintained. For example, Botswana exports 78 per cent of her pro-poor commodities to South Africa and imports 65 per cent of the same, indicating some intra-industry trade. Madagascar exports 92 per cent of the pro-poor commodities to Mauritius. The percentages in the table do not show a consistent pattern over the years, which suggests that the SADC FTA arrangements are not necessarily the contributory factor. If they were, then there would have been a consistent increase in the trade flows between the member states over the years.

**Table 5.2:** *Trade flow of SADC in pro-poor commodities 2000-2006 (%)*

| Trade Flow | From       | To        | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------|------------|-----------|------|------|------|------|------|------|------|
| Export     | Botswana   | RSA       | 0,78 | 0,73 | 1,00 | 1,00 | 1,00 | 1,00 | 1,00 |
| Export     | Botswana   | Zambia    | 0,13 | 0,14 | 0,02 | 0,02 | 0,01 | 0,03 | 0,03 |
| Import     | Botswana   | RSA       | 0,65 | 0,65 | 0,76 | 0,81 | 0,77 | 0,73 | 0,74 |
| Export     | Lesotho    | RSA       | 1,00 | 1,00 | 1,00 | 1,00 | 1,00 | Na   | Na   |
| Export     | Madagascar | Mauritius | 0,92 | 0,54 | 0,85 | 0,08 | 0,92 | 0,76 | 0,81 |
| Export     | Madagascar | RSA       | 0,02 | 0,27 | 0,13 | 0,86 | 0,06 | 0,23 | 0,12 |
| Import     | Madagascar | Mauritius | 0,84 | 0,41 | 0,29 | 0,29 | 0,15 | 0,32 | 0,22 |
| Import     | Madagascar | RSA       | 0,16 | 0,59 | 0,59 | 0,47 | 0,56 | 0,33 | 0,44 |
| Export     | Malawi     | RSA       | 0,26 | 0,28 | na   | 0,89 | 0,72 | 0,90 | 0,89 |
| Export     | Malawi     | Tanzania  | 0,19 | 0,28 | na   | 0,00 | 0,24 | 0,03 | 0,07 |
| Export     | Malawi     | Zambia    | 0,09 | 0,03 | na   | 0,10 | 0,01 | 0,02 | 0,02 |
| Import     | Malawi     | RSA       | 0,50 | 0,52 | 0,44 | 0,29 | 0,20 | 0,73 | 0,45 |
| Export     | Mauritius  | Malawi    | 0,00 | 0,00 | 0,01 | 0,01 | 0,00 | 0,00 | 0,00 |
| Export     | Mauritius  | RSA       | 0,21 | 0,51 | 0,56 | 0,69 | 0,77 | 0,92 | 0,98 |
| Export     | Mauritius  | Tanzania  | 0,00 | 0,01 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| Import     | Mauritius  | RSA       | 1,00 | 0,91 | 0,85 | 0,99 | 0,99 | 0,89 | 1,00 |

Table 5.2 (cont.)

| Trade Flow | From       | To       | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------|------------|----------|------|------|------|------|------|------|------|
| Export     | Mozambique | Malawi   | 0,13 | 0,01 | 0,00 | 0,03 | 0,06 | 0,30 | 0,06 |
| Export     | Mozambique | RSA      | 0,87 | 0,99 | 1,00 | 0,81 | 0,94 | 0,68 | 0,49 |
| Import     | Mozambique | RSA      | 0,94 | 0,98 | 0,99 | 0,73 | 0,76 | 0,72 | 0,88 |
| Export     | Namibia    | Angola   | 0,76 | 0,55 | 0,82 | 0,78 | 0,63 | 0,53 | 0,53 |
| Export     | Namibia    | RSA      | 0,21 | 0,25 | 0,18 | 0,21 | 0,29 | 0,42 | 0,38 |
| Import     | Namibia    | RSA      | 0,97 | 0,95 | 0,95 | 0,93 | 0,91 | 0,90 | 0,93 |
| Export     | RSA        | Angola   | 0,09 | 0,11 | 0,08 | 0,09 | 0,14 | 0,07 | 0,12 |
| Export     | RSA        | Zambia   | 0,09 | 0,11 | 0,14 | 0,09 | 0,05 | 0,05 | 0,12 |
| Export     | RSA        | Malawi   | 0,05 | 0,09 | 0,08 | 0,02 | 0,03 | 0,05 | 0,04 |
| Import     | RSA        | Zambia   | 0,00 | 0,00 | 0,05 | 0,08 | 0,07 | 0,05 | 0,06 |
| Import     | RSA        | Malawi   | 0,68 | 0,78 | 0,69 | 0,59 | 0,54 | 0,55 | 0,39 |
| Export     | Swaziland  | Angola   | 0,16 | 0,10 | 0,14 | 0,08 | 0,10 | 0,18 | na   |
| Import     | Swaziland  | RSA      | 1,00 | 0,99 | 0,99 | 1,00 | 0,99 | 0,99 | na   |
| Export     | Tanzania   | DRC      | 0,77 | 0,57 | 0,13 | 0,16 | 0,47 | 0,54 | 0,19 |
| Export     | Tanzania   | Malawi   | 0,12 | 0,27 | 0,45 | 0,17 | 0,28 | 0,16 | 0,27 |
| Export     | Tanzania   | RSA      | 0,00 | 0,02 | 0,00 | 0,07 | 0,04 | 0,04 | 0,02 |
| Export     | Tanzania   | Zambia   | 0,09 | 0,09 | 0,40 | 0,47 | 0,07 | 0,04 | 0,36 |
| Import     | Tanzania   | RSA      | 0,97 | 0,90 | 0,95 | 0,95 | 0,77 | 0,88 | 0,36 |
| Import     | Tanzania   | Tanzania | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| Export     | Zambia     | RSA      | 0,02 | 0,01 | 0,17 | 0,22 | 0,05 | 0,09 | 0,16 |
| Export     | Zambia     | Tanzania | 0,09 | 0,05 | 0,01 | 0,01 | 0,03 | 0,04 | 0,05 |

These results are confirmed by the findings of the TRADES Centre survey that the reduction in poverty is not necessarily related to SADC regional trade integration. Autonomous and bilateral liberalisation programmes are reported to generate more benefits than regional liberalisation. SADC statistics show that 2006 intra-trade totalled US\$9,24 billion, or roughly 12 per cent of all SADC world trade over the period 2000–2006.

Table 5.3: *Percentage of SADC intra-trade in total SADC trade*

|         | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------|------|------|------|------|------|------|------|
| Imports | 16   | 17   | 16   | 16   | 17   | 16   | 13   |
| Exports | 13   | 13   | 13   | 14   | 13   | 14   | 12   |

Source: Calculated from SADC trade data

Even though SADC accounts for less than one per cent of world imports, approximately 12 percent of its trade is intra-regional. The percentage for exports was lowest in 2006. The proportion of imports sourced from the region dropped from 15 per cent in 2001 to 13 per cent in 2006. Trade intensity indices may be used to indicate that the level of SADC intra-trade is not lower than that of other arrangements in the world. Intra-trade in both exports and imports declined in 2006. However, the overall picture is that the relative importance of intra-trade for some countries is unstable and the share of this exchange in total imports or exports varies markedly from year to year. Some economists argue that trade instability has a negative effect on prospects for industrialisation and growth.

The SADC export totals are lower than the corresponding import totals. Such differences are usually attributed to transport and insurance of commodities that are included in imports but excluded in exports. However, it is also possible that the trade imbalance merely reflects the situation that the SADC countries are failing to meet import demand from export proceeds. Table 5.4 shows how the ratio has changed during the period 2000 to 2006.

**Table 5.4:** *Ratio of imports to exports*

| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------|------|------|------|------|------|------|
| 0,97 | 0,94 | 0,97 | 1,01 | 1,09 | 1,12 | 1,17 |

If the change in the ratio were solely due to transportation costs, then the increasing percentage implies that the transport costs have been increasing over time. However, that is unlikely to be the case given that transport cost hurdles have been given the least scores from the TRADES Centre survey. The most appropriate reason would be that the SADC region is failing to finance its imports and that this situation has progressively worsened. This result has profound implications for the possibility of using trade reforms to achieve the goal of alleviating poverty. More resources would be channelled towards other pressing import requirements of the country unless policies are put in place to stop that from happening. This implies putting more restrictions on trade, rather than reducing them.

Alternatively, the countries need to invest in productive capacity in order to diversify the range of their export commodities to create some comparative advantage. Following this route has the potential of making

the regional grouping more industrialised and, hence, increases the growth rates of the member countries, and hopefully reduces poverty.

It is likely that the balance of SADC imports is being financed using official foreign aid. It is therefore likely that the slowdown in export performance will reduce capacity utilisation and growth.<sup>7,8</sup> Official foreign aid is usually tied or has other restrictions that hinder recipient countries from sourcing imports from within SADC.

As countries start to liberalise, their tax revenues decline. The extent to which some of the SADC governments will respond to the accelerated trade liberalisation, since they rely heavily on tariffs and other trade taxes for their revenues, remains to be seen. They will, therefore, be concerned about the loss of revenue resulting from liberalisation. The potential problem that this causes will be exacerbated by the fact that SADC import shares for the countries vary widely, so that the initial fiscal impact will have different national impacts and responses.

## Intensity of pro-poor commodity trade within SADC

Pro-poor commodity trade within SADC intra-trade accounted for at least four per cent of export flows for the individual countries during the 2000 to 2006 period, as shown in Table 5.5. From the table, it is observed that the lowest export flows were from Mozambique to Namibia. Malawi, Mauritius, Lesotho and Swaziland recorded the highest export flows, above 22 per cent. It is worth noting that these are the countries whose trade is carried out mostly with one partner within the regional grouping. Generally, the import flows have lower percentages. Trade intensity ratios give a much clearer picture of the trade between member countries.

**Table 5.5:** *Percentages of pro-poor commodities in total flows (2000–2006) going to the SADC region*

| Country    | Export flows | Import flows |
|------------|--------------|--------------|
| Botswana   | 12           | 7            |
| Lesotho    | 22           | 12           |
| Madagascar | 9            | 16           |
| Malawi     | 29           | 7            |
| Mauritius  | 24           | 5            |

Table 5.5 (cont.)

| Country    | Export flows | Import flows |
|------------|--------------|--------------|
| Mozambique | 4            | 3            |
| Namibia    | 4            | 8            |
| RSA        | 7            | 6            |
| Swaziland  | 26           | 8            |
| Tanzania   | 13           | 6            |
| Zambia     | 8            | 4            |
| SADC       | 10           | 6            |

### Trade intensity

The trade intensity index is the ratio of the share of a given country's exports to a partner to the share of the partner in global imports. If this ratio exceeds unity then the countries are said to have an above average tendency to trade with each other. This ratio is inspired by the work of Braga, Safadi and Yeats,<sup>9</sup> who presented its application within the context of regional trade arrangements. Since 12 percent of SADC exports go to the region, while the latter accounts for less than one per cent of global trade, intra-trade would be expected to be high. The trade intensity indices for countries where the formula described is applicable are listed here.

In 2006, the following pairs of countries showed an above average tendency to trade with each other in pro-poor commodity bundles:

Malawi – Zambia  
 Mauritius – Botswana  
 Mauritius – Zambia  
 Namibia – Botswana  
 Tanzania – Malawi  
 Tanzania – Zambia  
 Zambia – RSA

During the same year, all the other country combinations in the table showed a less than average tendency to trade with each other. Looking at previous years, it can be observed that the trade intensity ratio has been

fluctuating, which suggests that there are other factors that could be affecting trade between the countries rather than the SADC (FTA) arrangement. Hence, the observation by Roelfson<sup>10</sup> (1989) that intra-PTA trade failed to increase in products that could be supplied by member countries remains valid.

**Table 5.6:** *Trade intensity indices (2000–2006)*

|            |            | 2000  | 2001  | 2002   | 2003   | 2004 | 2005   | 2006  |
|------------|------------|-------|-------|--------|--------|------|--------|-------|
| Botswana   | Malawi     | 1,39  | 1,69  | 0,45   | 0,51   | 0,35 | 0,96   | 0,14  |
| Botswana   | Namibia    | 0,70  | 0,00  | 0,49   | 0,27   | 1,62 | 0,52   | 0,45  |
| Botswana   | Zambia     | 1,06  | 1,40  | 0,50   | 1,02   | 0,96 | 0,63   | 0,90  |
| Malawi     | Botswana   | 0,28  | 0,08  | 0,03   | 0,01   | 0,09 | 0,12   | 0,16  |
| Malawi     | Mozambique | 1,79  | 2,14  | na     | 0,10   | 0,00 | 0,20   | 0,35  |
| Malawi     | RSA        | 0,52  | 0,49  | na     | 1,05   | 0,81 | 0,68   | 0,70  |
| Malawi     | Tanzania   | 4,60  | 3,74  | na     | 0,19   | 3,26 | 0,75   | 1,05  |
| Malawi     | Zambia     | 2,72  | 2,65  | na     | 1,44   | 1,35 | 1,65   | 0,10  |
| Mauritius  | Botswana   | 4,37  | 2,08  | 4,18   | 10,99  | 3,66 | 122,02 | 2,94  |
| Mauritius  | Zambia     | 1,71  | 4,78  | 3,90   | 2,31   | 1,87 | 2,01   | 2,48  |
| Mozambique | Malawi     | 1,20  | 0,26  | 0,01   | 0,14   | 0,03 | 0,75   | 0,71  |
| Mozambique | RSA        | 1,15  | 3,90  | 2,48   | 0,46   | 0,09 | 0,07   | 0,30  |
| Namibia    | Botswana   | 1,93  | 1,05  | 1,23   | 1,06   | 0,27 | 1,15   | 1,30  |
| Namibia    | Botswana   | 28,41 | 2,42  | 4,62   | 3,27   | 0,88 | 3,31   | 4,58  |
| Tanzania   | Malawi     | 0,11  | 4,87  | 9,86   | 0,94   | 2,35 | 3,30   | 1,40  |
| Tanzania   | Zambia     | 0,06  | 0,18  | 134,88 | 293,58 | 3,79 | 1,96   | 20,10 |
| Zambia     | Botswana   | 4,20  | 19,06 | 2,01   | 0,79   | 2,61 | 0,04   | 0,94  |
| Zambia     | Malawi     | 0,91  | 1,32  | 2,12   | 1,13   | 1,00 | 4,81   | 3,90  |
| Zambia     | Mozambique | 1,48  | na    | na     | 0,00   | 0,33 | 0,33   | 9,44  |
| Zambia     | Namibia    | 0,59  | 0,42  | 0,26   | 5,95   | 0,32 | 0,20   | 0,09  |
| Zambia     | RSA        | 1,67  | 2,06  | 0,99   | 0,79   | 0,52 | 1,40   | 0,93  |
| Zambia     | Tanzania   | 15,15 | 2,31  | 0,11   | 0,04   | 0,05 | 0,41   | 0,09  |

Table 5.7 shows the exports and imports of the pro-poor commodity bundle from SADC to the member countries. The top half refers to exports from the SADC region to the different countries. The bottom half refers to SADC imports from the countries listed on the right-hand side. The table shows that both imports and exports are highly volatile. The ex-



port potential of neighbouring countries partially determines the pattern of trade shown in the table. Examples include Zimbabwe, Swaziland and Lesotho, who rely heavily on South Africa for their imports.

The share of intra-trade in the pro-poor commodity bundle in some individual SADC countries' imports was as volatile as that on the export side. For example, in 2000, Mauritius exported about 23 per cent of total SADC imports as opposed to 12 per cent in 2006. In the case of Madagascar, exports to SADC were three per cent in 2004, but the value had increased to 16 per cent by 2006. Over the same period, the share of intra-trade in Zimbabwe's imports increased from two to seven per cent. The corresponding shares for Tanzania reduced from ten to three per cent. Based on the argument that instability in exports (or imports) may be detrimental to developing countries' industrialisation and growth,<sup>11</sup> Maizels<sup>12</sup> and Massel,<sup>13</sup> state that it is important to determine the factors that are responsible for these wide, short-term changes in the pro-poor commodity bundle. In the same period, South Africa's imports from the SADC region declined from 14 to six per cent.

One possible source of instability is the nature of infrastructure that supports trade. For landlocked countries, this might be explained by the inaccessibility of international ports due to costly inland transportation. Thus, it becomes less costly to trade directly with neighbouring states. This trade sometimes renders it difficult for such countries to know the final destination of some of their exports, or the true source of their imports. This distorts the trade data to the extent that the land-locked countries record the countries of transit as either the exporters or importers. In support of such arguments is Livingston,<sup>14</sup> who analysed the nature and level of transport costs of some land-locked African countries.

**Table 5.7:** *Percentage of exports and imports of pro-poor commodities from the SADC region to member countries*

| Flow from SADC | to country | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------|------------|------|------|------|------|------|------|------|
| Export         | Angola     | 10   | 8    | 8    | 7    | 8    | 7    | 6    |
| Export         | Botswana   | 8    | 9    | 2    | 4    | 8    | 2    | 3    |
| Export         | DRC        | 21   | 24   | 20   | 15   | 12   | 12   | 10   |
| Export         | Lesotho    | 21   | 58   | 29   | 65   | 4    | 2    | 3    |

Table 5.7 (cont.)

| Flow from SADC | to country | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------|------------|------|------|------|------|------|------|------|
| Export         | Swaziland  | 4    | 1    | 17   | 3    | 4    | 12   | 5    |
| Export         | Malawi     | 4    | 7    | 14   | 5    | 6    | 8    | 6    |
| Export         | Mauritius  | 5    | 4    | 5    | 4    | 5    | 5    | 6    |
| Export         | Mozambique | 12   | 13   | 11   | 12   | 10   | 6    | 9    |
| Export         | Namibia    | 19   | 18   | 13   | 3    | 8    | 3    | 1    |
| Export         | RSA        | 14   | 19   | 15   | 24   | 17   | 10   | 6    |
| Export         | Tanzania   | 10   | 10   | 2    | 3    | 5    | 3    | 3    |
| Export         | Zambia     | 3    | 4    | 9    | 7    | 2    | 3    | 4    |
| Export         | Zimbabwe   | 2    | 2    | 11   | 11   | 9    | 19   | 7    |
| Import         | Angola     | 1    | 0    | 4    | 2    | 0    | 0    | 0    |
| Import         | Botswana   | 33   | 32   | 35   | 24   | 19   | 1    | 1    |
| Import         | DRC        | 0    | 2    | 1    | 1    | 7    | 1    | 1    |
| Import         | Lesotho    | 5    | 5    | 26   | 0    | 1    | 1    | 1    |
| Import         | Swaziland  | 1    | 1    | 1    | 5    | 9    | 10   | 18   |
| Import         | Malawi     | 46   | 44   | 45   | 36   | 33   | 26   | 30   |
| Import         | Mauritius  | 22   | 11   | 10   | 15   | 12   | 12   | 31   |
| Import         | Mozambique | 6    | 4    | 37   | 8    | 7    | 4    | 9    |
| Import         | Namibia    | 2    | 3    | 1    | 2    | 4    | 1    | 0    |
| Import         | RSA        | 6    | 6    | 7    | 7    | 6    | 6    | 6    |
| Import         | Tanzania   | 2    | 1    | 7    | 17   | 3    | 3    | 9    |
| Import         | Zambia     | 2    | 1    | 3    | 7    | 7    | 3    | 2    |
| Import         | Zimbabwe   | 8    | 10   | 7    | 6    | 6    | 6    | 4    |
| Import         | Madagascar | 3    | 2    | 10   | 1    | 2    | 5    | 16   |

Source: Calculated from SADC trade database

There is the possibility that the existing infrastructure and institutional constraints are limiting the expansion of trade opportunities. Without removing such constraints it is not highly persuasive to argue that the SADC (FTA) arrangement expanded the size of the market and reduced the reliance of trade on small domestic markets.

## Regional Orientation (RO) index

Another way of evaluating the importance of different commodities in SADC intra-regional trade is to use the RO index. The index shows the importance of different commodities in SADC intra-regional trade and provides useful insights on the potential of trade expansion in the pro-poor commodities. The RO index is defined as

$$R_i = \left( \frac{x_{ir}}{X_{ir}} \div \frac{x_{io}}{X_{io}} \right) \cdot 100$$

$x_{ir}$  = value of exports of country  $i$  in SADC intra-trade

$x_{io}$  = value of exports of country  $i$  in to third countries (outside SADC)

$X_{ir}$  = total value of SADC exports to within the region

$X_{io}$  = total value of SADC exports outside the region

This RO index is calculated as the ratio of the share of a product in exports to SADC to the share of the product in exports by SADC to other countries. The index takes values that range between zero and infinity. For a country which exports similar pro-poor commodities both within SADC and to non-members, the value of the index will be unity. Higher values for the index would reflect a greater tendency to export to within SADC. Such an index has been calculated for African intra-trade by Yeats.<sup>15</sup> Here we calculate the index for all the countries in the region whose data are available in full.

Inter-temporal comparisons of this index show the way in which the geographic pattern of trade has changed. This geographic orientation of trade is usually determined by factors such as comparative advantage, transport costs or trade barriers in alternative markets. In the short- to medium-term, changes in comparative advantage, transport costs or relative tastes are expected to be small. In this case, the index value changes are likely to be more heavily influenced by factors such as differential changes in trade barriers, like those available under the SADC (FTA) arrangement. Changes in the RO index indicate whether or not intra-SADC in the pro-poor commodity trade is growing in importance.

Table 5.8 shows that there was a marked increase in the RO index during 2005. Thus, intra-SADC trade in pro-poor commodities is growing in importance. Hence, it is important to design and implement policies

that support that trade, as is the case with the SADC (FTA) arrangement. The growing importance has positive implications for the eradication of poverty.

**Table 5.8:** *RO indices for SADC (2000–2006)*

|                   | 2000   | 2001   | 2002   | 2003   | 2004   | 2005   | 2006  |
|-------------------|--------|--------|--------|--------|--------|--------|-------|
| <b>Botswana</b>   | 86,4   | 62,4   | 69,4   | 79,5   | 99,2   | 102,1  | 103,6 |
| <b>Lesotho</b>    | 592,7  | 260,5  | 746,4  | 444,0  | 156,3  | na     | na    |
| <b>Madagascar</b> | 20,9   | 38,4   | 34,6   | 41,9   | 25,4   | 17,6   | 19,1  |
| <b>Malawi</b>     | 349,6  | 236,6  | na     | 206,8  | 270,6  | 258,0  | 335,6 |
| <b>Mauritius</b>  | 9,8    | 10,4   | 13,2   | 12,9   | 15,3   | 11,2   | 19,6  |
| <b>Mozambique</b> | 377,6  | 195,4  | 227,8  | 196,6  | 158,5  | 184,1  | 175,8 |
| <b>Namibia</b>    | 341,7  | 305,6  | 445,7  | 828,4  | 383,9  | 428,9  | 369,0 |
| <b>RSA</b>        | 104,1  | 109,5  | 107,4  | 99,5   | 97,5   | 105,1  | 115,8 |
| <b>Swaziland</b>  | 2246,5 | 3412,9 | 2603,2 | 2128,4 | 1970,8 | 2956,9 | na    |
| <b>Tanzania</b>   | 37,8   | 30,0   | 57,4   | 54,7   | 83,8   | 179,2  | 172,3 |
| <b>Zambia</b>     | 279,1  | 282,1  | 355,7  | 472,8  | 615,2  | 421,3  | 406,6 |

Source: Calculated from SADC trade data

## Revealed comparative advantage

It is also possible to evaluate changes in RCA in production based on the opportunities for expanded intra-trade and link these with the SADC (FTA) arrangement. The results could then be used to assess the potential of such trade arrangements in reducing poverty. UNCTAD<sup>16,17</sup> and Amjadi, Reincke and Yeats<sup>18</sup> show that, in comparison with global exports, trade in foods has been predominant within SADC.

Indices of RCA could be used to show the range of processed products that countries can export competitively.<sup>19</sup> A common comparative advantage in the same commodities indicates that there are few benefits to be derived from the FTA arrangement. Thus, there would be a need to develop an export capacity in the products that are being sourced from third countries, otherwise the current scenario reduces the potential benefits of the arrangement.

Using the index in conjunction with the trade diversification and complementarity indices allows an assessment of the benefits from FTA prospects. Countries with different RCA index profiles could mutually benefit from trade more than those with a high degree of similarity. Hence, it is important to determine the industries in which the SADC member countries have a comparative advantage and the associated products. For the pro-poor commodity bundle, this would encourage diversifying into the manufacture of commodities that add value. However, if the number of products is low, and for products where aggregate trade is relatively unimportant, the value of the index is low and the FTA arrangement is not likely to succeed.

In this case, the RCA is determined in the following way: take the ratio of poverty-related goods to total country exports to SADC and divide it by the ratio of SADC exports of poverty-related goods within SADC to the total exports within SADC.

The RCA of country  $i$  for product  $j$  is measured by the commodity's share in the country's exports relative to its share in SADC trade. That is, if  $x_{ij}$  is the value of country  $i$ 's (global) exports of  $j$ , and  $X_{ij}$  is the country's total (global) exports, its index is

$$RCA_{ij} = \left( \frac{x_{ij}}{X_{ij}} \right) \div \left( \frac{x_{is}}{X_{is}} \right)$$

where the  $S$  subscripts refer to SADC totals.

Revealed comparative advantage indices are usually computed only for processed goods or manufactures because trade in agricultural products is often distorted by export incentives or trade barriers, which distort the value of the index. Our pro-poor group of commodities includes maize and maize meal, cooking oil, soap, sugar and clothing, some of which are manufactured goods. The observed value of the index is less than unity when the country has an RCA in the product. It exceeds unity when the country has an RCA.

An ideal RCA index should be measured in an environment where there are no external trade constraints, such as tariffs and non-tariff barriers that distort individual countries' export profiles, or where domestic market interventions in the exporting country do not have an anti-export bias. Currently, there are relatively low trade barriers to exports from Africa.

Table 5.9 shows that Botswana, Lesotho, Malawi, Swaziland and Tanzania have an RCA in the trade of pro-poor commodities that are important in reducing poverty. The question is whether this is as a result of the implementation of the SADC Trade Protocol. Is the trend showing that? The remainder have comparative disadvantage. However, the table shows that the figures for the RCA have been fluctuating over the years, yet most of them remained on the same side of either comparative advantage or disadvantage, with the exception of Botswana, Madagascar and Tanzania.

Hence, according to the traditional results of international trade, the countries with comparative disadvantage are the ones to be expected to move out of the production of the pro-poor commodities. As some of its objectives, the SADC TP has to ensure efficient production within SADC, reflecting the current and dynamic comparative advantages of its members, and to enhance the economic development, diversification and industrialisation of the region. This is a long-term plan which requires the installation of new capacities. The period covered by the RCA index is not long enough to observe the benefits of the SADC (FTA) arrangement. However, with the installation of new capacities based on new technologies, it should be possible to reverse the RCA, or even create new opportunities through diversification, and possibly the manufacture of some agricultural commodities.

**Table 5.9:** *In trade of pro-poor commodities*

|                   | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Average |
|-------------------|------|------|------|------|------|------|------|---------|
| <b>Botswana</b>   | 1,42 | 1,32 | 1,10 | 0,82 | 1,12 | 1,02 | 1,79 | 1,23    |
| <b>Lesotho</b>    | 1,79 | 1,90 | 2,04 | 2,32 | 1,47 | na   | na   | 1,91    |
| <b>Madagascar</b> | 0,63 | 0,77 | 0,72 | 1,62 | 0,34 | 0,75 | 1,36 | 0,88    |
| <b>Malawi</b>     | 4,39 | 3,28 | na   | 2,60 | 2,26 | 2,00 | 2,85 | 2,90    |
| <b>Mauritius</b>  | na   | na   | na   | na   | na   | na   | na   |         |
| <b>Mozambique</b> | 0,49 | 0,99 | 0,85 | 0,14 | 0,04 | 0,06 | 0,32 | 0,41    |
| <b>Namibia</b>    | 0,48 | 0,53 | 0,40 | 0,33 | 0,36 | 0,39 | 0,43 | 0,42    |
| <b>RSA</b>        | 0,60 | 0,49 | 0,80 | 0,58 | 0,51 | 0,89 | 0,95 | 0,69    |
| <b>Swaziland</b>  | 2,45 | 2,68 | 1,81 | 2,56 | 2,87 | 2,11 | na   | 2,41    |
| <b>Tanzania</b>   | 0,42 | 0,88 | 3,49 | 1,76 | 0,50 | 0,36 | 0,77 | 1,17    |
| <b>Zambia</b>     | 0,91 | 0,64 | 0,72 | 0,54 | 0,96 | 0,81 | 0,73 | 0,76    |

Although the index could be highly distorted by the major distortions in the trade regimes, the result does point to the need to liberalise, since a general liberalisation of trade barriers would improve the international competitiveness. The calculation has been made to determine comparative advantage in the individual commodities. Whatever the result, there are some countries that do have a comparative advantage in the same composite pro-poor commodity, which indicates that there might be few benefits to be obtained from the FTA arrangement unless the SADC FTA develops an export capacity in other products.

### Inter-industry SADC trade

In order to assess the potential of increased intra-industry trade within SADC intra-regional trade, it is necessary to check the extent to which the existing structure has such potential. Although pro-poor commodities tend to be similar, such that intra-industry trade is not expected to be much, the different production opportunities that exist in different SADC countries warrant an examination of such trade. In the case of manufacturing, these opportunities would involve cross-country production sharing, which assists participating countries to integrate into regional markets. In terms of production of pro-poor commodities, the scope of such cross-country production is generally limited. Hence, policies that promote research in agriculture are required so that new production opportunities are created and intra-trade is expanded. This could be done by promoting the use of greenhouses in agriculture, creating production capacity in the food processing firms, and suchlike.

An intra-industry trade ratio<sup>20</sup> is used to show the extent of such trade within the pro-poor group of commodities. For a single commodity, the ratio is defined as

$$IIT_{js} = 1 - \frac{\sum_i \sum_j \sum_s |X_{ijs} - M_{ijs}|}{\sum_i \sum_j \sum_s (X_{ijs} + M_{ijs})}$$

where  $X_{ijs}$  represents the exports of products from industry  $i$  from country  $j$  to SADC  $s$  and  $M_{ijs}$  represents the imports of products from industry  $i$  by country  $j$  from SADC  $s$ .<sup>21</sup>

The value of the index lies between zero and infinity. Large values indicate a greater degree of intra-industry trade. Higher intra-industry trade ratios suggest that there is greater scope for realising gains from specialisation in differentiated products. Table 5.10 suggests that there is such a possibility.

**Table 5.10:** *Index of intra-industry trade*

|            | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|------------|------|------|------|------|------|------|------|
| Botswana   | 4,07 | 4,25 | 4,28 | 4,34 | 4,16 | 4,38 | 4,15 |
| Lesotho    | 5,50 | 5,07 | 5,04 | 5,41 | 5,54 |      |      |
| Madagascar | 5,82 | 4,99 | 5,40 | 5,56 | 5,40 | 4,88 | 5,20 |
| Malawi     | 3,78 | 4,25 | 6,00 | 4,77 | 5,17 | 4,65 | 4,62 |
| Mauritius  | 5,63 | 4,97 | 3,93 | 4,63 | 4,92 | 5,09 | 5,40 |
| Mozambique | 4,54 | 5,07 | 5,58 | 4,27 | 5,12 | 5,52 | 4,09 |
| Namibia    | 4,25 | 3,94 | 3,65 | 3,08 | 4,32 | 4,52 | 4,84 |
| RSA        | 4,91 | 4,99 | 5,02 | 4,74 | 4,77 | 4,86 | 4,98 |
| Swaziland  | 4,15 | 4,53 | 4,78 | 4,93 | 4,90 | 4,62 | 0,00 |
| Tanzania   | 4,33 | 4,18 | 4,74 | 3,97 | 4,37 | 4,22 | 4,10 |
| Zambia     | 4,92 | 4,72 | 5,41 | 5,09 | 4,64 | 4,07 | 3,94 |

Although commodities should be defined at the 3-digit level of the International Standard Industrial Codes (ISIC), we have used the SADC Harmonised System (HS). It might not be practical to promote production sharing in the production of pro-poor commodities in the near future, but a starting point would be to encourage research and development in related activities. The design and implementation of appropriate policies that increase intra-industry trade (production sharing) in SADC are necessary in areas such as agro-processing industries. The Global Coalition for Africa<sup>22</sup> suggests that the establishment of export processing zones (EPZs) may promote production sharing within Africa by providing export producers access to duty and tax free imported inputs, adequate infrastructure and utilities, a favourable and simplified regulatory environment, tax holidays and preferential financing. FTAs usually collapsed as a result of a lack of complementarity in member countries' exports and imports, and also due to disagreements about how costs and benefits are to be shared. The Latin



American Free Trade Association (LAFTA) and the Andean Pact eventually collapsed for such reasons, among others.<sup>23</sup> Complementarity indices could be used to show the diversity of products in a country's exports in intra-SADC trade in the pro-poor commodity bundle. Michaely<sup>24</sup> used such an index of trade complementarity to assess prospects for increased intra-trade among Latin American countries.

The geographic concentration of SADC's intra-trade reduces the potential benefits of integration. SADC intra-trade is highly concentrated, such that in some cases there is no trade in the pro-poor commodities. The institutional and infrastructure constraints in SADC weaken arguments that FTAs provide larger markets. Dynamic comparative advantage could be achieved by improving transport, communications, finance, and so on. However, such infrastructure takes time to develop and is limited by the distances that have to be covered.

## **Production structures and competitiveness**

The formal production structures in the SADC region are largely oligopolistic. Trade liberalisation has the potential to transform production structures so that they become more competitive. For it to be successful, liberalisation needs to be accompanied by good macroeconomic policies, institutional reforms and good infrastructure facilities. The Economic Report on Africa (ERA)<sup>25</sup> identifies weak infrastructure, poor trade facilitation services and inadequate physical and human capital as impediments to the development of Africa's export sectors.

The inability to develop advanced production capacities has forced many developing countries to continue producing traditional exports, thus failing to improve their growth performance. In order to improve their growth prospects and thereby reduce poverty, there is a need to address supply-side capacities so that the countries in the SADC FTA manage to diversify into non-traditional production. FTA arrangements are generally promoted since they have the potential to accelerate industrialisation, diversification and growth.

Countries intending to integrate usually undertake projects that improve infrastructure, such as energy, transport and communication systems. In this regard, most countries in SADC continue their efforts to develop ports so that they can utilise modern shipping technologies and

realise economies of scale. Also, with cooperation it becomes possible to use joint tenders to secure imports at more favourable prices. Integration facilitates cooperation in monetary and financial matters, which tends to encourage domestic and foreign investment.

Production of SADC exports is highly concentrated in a few products, even though these are relatively important in regional imports. As will be explained later, there is some degree of complementarity in SADC trade, which facilitates integration. However, SADC intra-trade is highly concentrated between different countries in the SADC, so that the market size argument is not persuasive unless transport costs are the prohibitive factor. Indices of RCA are not very high, and this limits the options available to change the pattern of trade unless complementary investment that might boost dynamic comparative advantage is undertaken.

In addition, SADC needs to diversify export capacity in the products not directly related to poverty so that it does not continue to be highly dependent on third countries for these imports. This dependency on non-SADC suppliers reduces prospects for the success of the FTA arrangements, thus reducing the capacity of the trade to reduce poverty. FTA arrangements are generally promoted since they have the potential to accelerate industrialisation and growth.

Countries intending to integrate usually undertake projects that develop ports to enable them to utilise modern shipping technologies and realise economies of scale in transport. Also, with cooperation, countries may be able to use joint tenders to secure imports at more favourable prices. They try to encourage domestic and foreign investment by cooperating in monetary and financial matters.

## **Experience of other countries**

Proponents of integration argue that FTA arrangements help to expand the limited export bases. However, the speed at which countries manage to increase their production capacity in order to adjust their export profiles affects the possibility of deriving benefits from dynamic comparative advantage. The enabling conditions under which the Asian newly industrialised countries (NICs) industrialise are often given as an example.

NICs went through a period of dynamic change from the mid-1970s to the mid-1980s. At the end of the ten-year period the number of new

products exported by NICs had increased by about ten per cent. By the mid-1980s, the shares of all exported 3-digit Standard International Trade Classification (SITC) products were still highly correlated with those of 1975. Hence, the change in the structure of national production and exports occurs slowly, even under ideal conditions.

The infrastructure and related conditions which facilitated the NICs' export expansion in the 1970s are superior to the conditions in most SADC countries today. For example, UNCTAD<sup>26</sup> reported that literacy rates in Asian countries ranged from over 70 to 90 per cent, while those in many African countries currently do not exceed 30 per cent. Asia managed to service the global markets since it had access to adequate international transport and communications. In contrast, transport facilities and communications within SADC are a major constraint to expanded trade.<sup>27,28</sup> The survey also shows the hurdles that are faced in transport and communications.

The lesson from the NICs' experience is that, over the transition period, SADC should have unrestricted access to superior foreign products that could improve the production efficiency of domestic firms, especially in the pro-poor commodities, and allow for cross-border exploitation of value chains. Otherwise, if, without increasing efficiency, SADC's international competitiveness declines, the share in world trade also declines, and poverty levels could, therefore, increase.

Although static gains from trade in the pro-poor commodities are at best negligible, there is a possibility of achieving dynamic gains. Since foodstuffs dominate the fastest growing products in intra-trade, it is possible to reduce poverty by promoting trade in these commodities to develop the capacity to process them to add value; and finally be able to diversify so that there will be more benefits from intra-industry trade. Although some exports from SADC countries do not closely match the import requirements of partner countries for commodities that enhance competitiveness, the potential for product diversification following that route is small.

Examples of situations that support such arguments include Sachs and Warner,<sup>29</sup> who found that countries with open trade policy regimes over 1971 to 1989 had average per-capita GDP growth rates of 2,5 per cent a year higher than countries with closed ones. They also had a much higher degree of success in shifting their exports from primary commodities to manufactures.

## Conclusion

Intra-SADC trade in the pro-poor commodities is growing in importance, making it vital to design and implement policies that support such trade, as is the case with the SADC (FTA) arrangement. The growing importance has positive implications for the eradication of poverty. However, fluctuations in most of the indices that have been used to examine the pattern of trade during the period 2000 to 2006 do not reflect consistency/successes in the SADC (FTA) arrangement in creating more trade within the region, especially in the pro-poor commodities.

SADC intra-trade has the potential to increase through the production of non-traditional exports, and the reduction of both tariff and non-tariff barriers, as well as the harmonisation of sanitary and phytosanitary (SPS) measures and standards. SADC trade data show that there is the potential for increasing such trade, and so avoiding reliance on countries outside the region.

The pattern of trade has fluctuated over the years, rather than following a pattern that would be consistent with a gradual removal of trade restrictions. This is also likely to have been caused by the limited complementarity in the exports and imports of the member countries. A successful avenue to follow is likely to be one where dynamic comparative advantage is created. This is the route that might be the most promising for increasing trade between SADC members. Increased trade also increases the growth prospects of the countries, with a likely reduction in poverty.

Common wisdom is that free trade should bring more benefits than any form of restricted trade. This is a strong argument in favour of trade liberalisation. However, such trade, according to static comparative advantage, fails to take into account the dynamic gains that countries could attain through product diversification, learning by doing, and so on. In trying to protect the domestic industry through trade restrictions and domestic policy interventions, countries often create a bias against exports that prevents the achievement of otherwise attainable rates of growth. If, in general, the growth rates of economies of SADC improve, then the scope of intra-industry trade could be widened and trade in the pro-poor commodity bundles increased, with the final result being poverty alleviation.

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# 6

## **Selected Country Case Studies on the Impact of SADC FTA on Poverty Reduction**

### **Angola Case Study**

Tendai Chigwada

#### **Introduction**

ANGOLA'S ECONOMIC GROWTH RATE HAS BEEN IMPRESSIVE OVER THE PAST decade, following the end of the civil war. The economy grew by an estimated world high record of 19,7 per cent in 2007, up from 18,6 per cent in 2006.<sup>1</sup> Economic growth has been supported by increasing oil production and prices. Angola's economy is entirely dependent on oil and diamonds, which together account for 72 per cent of GDP.<sup>2</sup> Oil and diamonds account for 93 and six per cent respectively of Angola's total merchandise exports.<sup>3</sup> However, the current global financial crisis poses a risk to Angola's growth prospects. A drop in world petroleum prices – Angola's dominant export – places the country's growth performance at risk in the short term.

Moreover, heightened risk aversion in financial markets is likely to reduce the flow of international capital into Angola, which may hamper new investments and complicate trade finance. Growth in 2009 is expected to moderate at 5,1 per cent, as oil production declines by about two per cent.<sup>4</sup> This is an indication that growth that relies heavily on one dominant sector (resources) may not be sustainable. Overall, this may place a strain on Angola's poverty reduction targets.

Despite the growth of the extractive sector, the poverty situation in Angola has not changed. This has been blamed on the lack of linkages between capital-intensive sectors and the rest of the economy. Some analysts argue that Angola's weak governance and entrenched vested interests from the political elite have severely impeded the country's economic develop-

ment. As will be discussed in this case study, Angola's income inequality has increased in the last few years as a result of a concentration of income in the oil sector and the capital, Luanda. Moreover, Angola has not been actively involved in liberalising its trade under the SADC Trade Protocol (TP), to which it acceded in 2003, and the SADC Free Trade Agreement (FTA), which it decided to join at a later stage.

Supply-side constraints in the agricultural sector have not enabled the sector's potential to be unleashed, and thus play a central role in poverty reduction. Moreover, there seems to be no coherence between policy and the Poverty Reduction Strategy (PRS).

The rest of the case study is structured as follows: A discussion on Angola's poverty indicators and poverty reduction strategy is followed by an analysis of the link between agriculture and poverty in Angola. An overview of Angola's bilateral and multilateral agreements is then provided, before a discussion on economic linkages between emerging marketing economies and Angola. Particular emphasis is placed on the economic relations with China, following an overview of the global surge in oil prices and the need for an alternative and sustainable source of energy. The last section concludes by arguing that it is difficult to assess whether the SADC TP/FTA has had any impact on poverty, given that Angola has not implemented the SADC TP and in view of its limited production capacity, especially in agriculture, and its lack of competitiveness.

## Poverty indicators and poverty eradication strategies

There is a dearth of information on poverty and social indicators in Angola. Most of the existing surveys are outdated and scarce. The most recent household income and expenditure survey was done in 2001 and covers only eight provinces in the country (50% of the population). Moreover, about 86 per cent of the population lived in the urban areas.<sup>5</sup>

The multiple cluster indicator survey (MCIS), which is considered the most reliable, that was carried out in 2002 covered 19 provinces and approximately 90 per cent of the population. However, 61 per cent of the households were in the urban areas. Hence, both surveys had a very strong urban bias and most of the information still reflects conditions during the war period. Both surveys indicate that approximately 70 per cent of the population lives on less than US\$2 per day.<sup>6</sup>



Although living standards have shown some improvements recently, they are still low by international standards. Table 6.1 gives some basic poverty and social indicators for Angola. As indicated in the table, about 68 per cent of the population lives below the poverty line, life expectancy at birth is about 38 years and the adult literacy rate is at a low 33 per cent. Child and maternity mortality rates are high compared to other countries in the SADC region. The table also indicates that income inequality is very high in Angola; the country's income is concentrated in the oil sector, and mainly in Luanda. Income inequality rose during most of the 1990s, as indicated by the Gini co-efficient, which increased from 0,54 to 0,64, making Angola one of the most unequal countries in the world in terms of income distribution.<sup>7</sup> Net primary school attendance rate is still very low. As a consequence, Angola's Human Development Index (HDI) is among the lowest in the world, despite the country being rich in resources.

**Table 6.1:** *Basic poverty and social indicators*

| Indicator                                        | Where Angola stands |
|--------------------------------------------------|---------------------|
| Population (2008) (million)                      | 17                  |
| Population (less than 20 years) (2004)           | 60%                 |
| Population below poverty line                    | 68%                 |
| Life expectancy at birth (2008)                  | 37,9                |
| Under five mortality (per 1 000 live births)     | 250                 |
| HIV/AIDS prevalence (2008)                       | 2,1%                |
| Adult literacy rate (2003)                       | 66,8%               |
| Maternity mortality rate                         | 1800                |
| Net primary school attendance rate (1–4th grade) | 56%                 |
| HDI rank (out of 177 countries)                  | 160                 |
| GDP/capita rank (out of 177 countries)           | 126                 |
| Gini coefficient (income, 1995)                  | 0,54                |
| Gini coefficient (income, 2005)                  | 0,64                |

Source: World Bank (2007), Nathan Associates Inc (2008)

In 2003, Angola published its Poverty Reduction Strategy, which focuses on ten priority areas. The PRS was adopted in 2005 and its main objectives include:<sup>8</sup>

- **De-mining** – 60 000 km<sup>2</sup> of ground to be cleared by 2006.
- **Food security and rural development** – production of cereals, vegetables, roots and potatoes to be increased by 2006; assistance for seed production and fisheries; replanting of forests; assistance for irrigation; rehabilitation of agricultural development stations; assistance to women; and new microfinance initiatives.
- **Basic infrastructure** – by 2006, rehabilitation of 5 600 km of roads and bridges, and maintenance of 15 500 km of roads; increasing access to drinking water to 76% in urban areas and 46% in rural areas, and access to sanitation to 79% and 32%, respectively; increasing the number of families with electricity to 25%; making social housing available in Luanda and the provinces; and rehabilitation of railway lines.
- **Macroeconomic management** – improved public finance and procurement procedures; price and exchange rate stability, with inflation below 10% from 2006; real GNP growth target of 13,9% over 2003–2007; fiscal surplus of around 3,8% of GNP by 2007; gross international reserves at 2,2 months of imports by 2007; expansion of the commercial banking system; more efficient and equitable revenue collection; and public accounts transparency.
- **HIV/AIDS** – universal access of population to information, testing and counselling services, and to condoms, by 2007–2008.
- **Education** – 100% primary education by 2015; education for street children; reduction in adult – including women's – illiteracy.
- **Health** – reducing under-five and maternal mortality rates by 75 per thousand by 2015; and blocking and reversing the spread of HIV/AIDS, malaria, tuberculosis, sleeping sickness and leprosy.
- **Social reintegration of displaced people** – rehabilitation of rural communities; and mechanisms to ensure efficient management of the process.
- **Employment and professional training** – adaptation and decentralisation of technical and professional training systems.
- **Governance** – reinforcement of the judicial system; improvement of administrative services; and greater decentralisation with increased accountability.

Despite these objectives, some analysts argue that the Poverty Reduction Strategy has little influence on policy.<sup>9</sup> It is supposedly the basis for an extension of a medium-term development plan covering the 2005 to 2009

period, but it is not clear to what extent it has been used for this purpose. Progress has been made in sectors such as infrastructure; however, health and education still remain problematic because of high costs and poor quality.

Donors and aid play a very minimal role in Angola's effort to reduce poverty. In 2006, Angola's official development assistance (ODA) amounted only to 0,4 per cent of gross national income (GNI).<sup>10</sup> This is very small by African standards. This large independence from foreign aid is largely due to the country's oil riches.

Table 6.2 shows the assessment of Angola's Millennium Development Goals (MDG) status. The assessment looks at the actual level of achievement of each goal, the probability of each goal or target achievement, and the adequacy of Angola's policy with regard to each goal. As illustrated in the table, the actual level of achievement of most MDGs is very low, the probability of the attainment of most of the MDGs is moderate, and the adequacy of government policy in most MDGs is also moderate. Nonetheless, achieving universal primary education by 2015 seems to be on track.

**Table 6.2:** *Angola's MDGs status*

| Goal                                         | Actual level of goal achievement | Probability of goal/target achievement | Adequacy of policies |
|----------------------------------------------|----------------------------------|----------------------------------------|----------------------|
| Eradicate extreme poverty and hunger         | Low                              | Moderate                               | Moderate             |
| Achieve universal primary education          | High                             | High                                   | High                 |
| Promote gender equality and empower women    | Low                              | Moderate                               | Moderate             |
| Reduce child mortality                       | Low                              | Moderate                               | Moderate             |
| Improve maternal health                      | Low                              | Moderate                               | Moderate             |
| Combat HIV/AIDS, malaria and other diseases  | Low                              | Moderate                               | Moderate             |
| Ensure environmental sustainability          | Low                              | Moderate                               | Low                  |
| Develop a global partnership for development | Moderate                         | Moderate                               | Low                  |

Source: UNDP,<sup>11</sup> 2005

## **Agriculture and poverty**

It is estimated that agriculture employs about 85 per cent of Angola's labour force, and the remaining 15 per cent is employed in industry.<sup>12</sup> Agricultural production remains subsistence in nature and is dominated by family farms. Lack of infrastructure and inputs coupled with low labour productivity have resulted in low yields per hectare. It is estimated that about 94 per cent of rural households are poor, compared with 57 per cent in urban areas, due to the isolation from essential services and markets.<sup>13</sup>

Angola's agricultural sector has been neglected, owing to the civil war that lasted for 27 years, between 1975 and 2002. However, there are initiatives to revive the sector. Before independence in 1975, and the civil war that started thereafter, Angola was a major exporter of coffee, maize and other agricultural products, such as sisal, bananas, wood and sugar. Angola is now a large food importer, and formerly important cash crops such as coffee have dwindled to virtually nothing.

The complete destruction of infrastructure in the rural areas during the war resulted in the virtual collapse of agricultural production and increased poverty. This was further exacerbated by landmines in rural areas, which impeded agricultural production. Although the end of the war has allowed the farming population to return to the land, market links between interior-producing regions and coastal-demand centres still remain in poor condition.

It is widely recognised that Angola's agricultural sector will play a significant role in poverty reduction for the vast majority of the population. However, there are concerns that the overvalued exchange rate emanating from revenues from oil exports may constrain the competitiveness of agricultural exports – the so-called 'Dutch disease' phenomenon.

## **An overview of Angola's trading arrangements**

Angola became a member of the World Trade Organization (WTO) in 1996 and also participates in a number of trade agreements. Despite this, it has not benefited from any preferential arrangements owing to non-implementation, limited production capacity and competitiveness. It will be essential, therefore, for Angola to both implement trade liberalisation commitments and to remove supply-side constraints to be able to fully

benefit from preferential agreements. Angola benefits from non-reciprocal preferential trade agreements with a number of industrialised countries under the Generalised System of Preferences (GSP), including the EU's Everything But Arms (EBA) initiative and the US's African Growth and Opportunity Act (AGOA).

Angola is a member of SADC, but it has not yet fully implemented the SADC TP and the SADC FTA, hence it is difficult to measure the impact of SADC regional trade liberalisation on poverty in Angola. Angola has requested to join the SADC FTA at a later stage. It is also part of the ongoing SADC-EU Economic Partnership Agreement (EPA) negotiations and has not signed the Interim EPA with the EU.

## Emerging markets and Angola

There are three major emerging economies that are influential in Angola's economic relations: China, Brazil and the RSA. Chinese investment in Angola is primarily concentrated in the transport infrastructure and extractive industry sector, particularly oil. Financial relations between Angola and China are governed by an accord signed in November 2003, which established the basis for future bilateral economic and trade cooperation. China has granted Angola various loans for the rehabilitation of the road and rail infrastructure destroyed during the civil war. Angola has also benefited from an oil-backed credit line from the Chinese authorities, which stood at about US\$3 billion in 2006.<sup>14</sup> Financial support pledged by China for the reconstruction of Angola stands at nearly US\$7 billion.<sup>15</sup> Although not easily measured, Chinese infrastructural investment has contributed to poverty reduction in Angola.<sup>16</sup> Infrastructural projects have centred on projects with immediate social impact, such as electricity, water supply, transport infrastructure, health care facilities and educational facilities.

Bilateral trade between Angola and China has seen a significant increase in the last few years. In 2005, bilateral trade between the two countries reached US\$6,95 billion. Angola's exports to China predominantly consist of oil exports, which totalled US\$6,58 billion in 2005.<sup>17</sup> Since 2006, China has become the largest destination for Angolan oil exports. Hence, China runs a considerable trade deficit owing to the rapidly increasing rate of oil imports from Angola. Nonetheless, imports from China increased by 138 per cent from 2005 to 2006, making China the second largest

supplier to Angola after Portugal. As is the case with most African states, if not all, China's engagement with Angola seems to stem from China's pursuit of resources, in this case oil.

Trade with Brazil has increased dramatically, with imports rising more than fourfold between 2003 and 2006. Angola has become the fourth-largest African export market for Brazil. The Brazilian construction company Odebrecht has won contracts for many projects, including road rehabilitation.

South Africa is an important source of imports such as food for Angola; imports from South Africa increased by 37 per cent from 2006 to 2007.<sup>18</sup> In November 2007, Angola and South Africa signed two cooperation agreements in the oil and tourism sectors, as well as a declaration of intention on eliminating visa requirements for their nationals.

The global surge in oil prices has not only increased revenues in Angola's oil sector, but has also created new opportunities in the biofuel sector, as Angola's untapped agricultural potential provides an opportunity for the development of this sector. These investments have the potential to be a vehicle to poverty reduction given that most people are employed in the agricultural sector.

Investments in the biofuels sector are underway and they could make Angola one of the most important producers of biofuels. A new agreement has been signed by Sanangol, Odebrecht and the Angolan firm Damer for a US\$200 million investment to set up a new biofuel company.<sup>19</sup> This biofuel project will be located in one of the three industrial clusters created by the government with a view to upgrading the entire agricultural value chain.

Given that agricultural investments are pro-poor in nature, biofuel investments can be expected to play a central role in poverty reduction in Angola.

## Conclusion

The major conclusion in this analysis is that Angola is currently experiencing a world record economic growth rate, spurred by commodity production and exports. Angola's growth is highly dependent on its extractive industry, namely oil and diamonds. However, this sector has not been able to reduce poverty for the vast majority of Angolans. Income is concen-

trated in the oil sector and in the capital, Luanda, making Angola's income inequality one of the highest in the world. There is no redistributive mechanism of the huge revenues derived from oil exports.

Angola has not implemented trade liberalisation measures under the SADC TP, and hence no link can be made between regional trade liberalisation and poverty reduction. Angola has decided not to be part of the SADC Interim EPA with the EU. Moreover, Angola has not been able to take advantage of preferential market access offered by industrialised countries (EBA, GSP of China, India and Australia, and AGOA) because of supply-side constraints and competitiveness issues.

It is, therefore, extremely difficult from this analysis to establish a link between trade and poverty reduction in Angola. However, the ongoing government initiatives to redevelop agriculture, a pro-poor sector, may have a positive impact on poverty reduction.

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## Lesotho Case Study

Tendai Chigwada

### Political economy perspective of poverty in Lesotho

POVERTY IN LESOTHO CAN BE UNDERSTOOD PROPERLY IF IT IS LINKED TO issues of its historical governance and the way the country's resources have been managed. The approach to this country's case study takes an historical, political and economic perspective to show how the Basotho<sup>1</sup> have travelled this historical road from the land of plenty to a nation of poor people. The years between 1884 and 1966 witnessed the decline of Lesotho from a prosperous grain granary to an impoverished labour reserve, transforming from a net exporter of grain at the beginning of the period to a net importer of grain at the close of it.

During the pre-colonial era, the founder of the small Kingdom of Basutoland, Moshoeshoe, ensured that every one of his subjects had enough to eat and drink, as he valued agricultural land to form the main productive base for Basotho's socioeconomic and political prosperity. This valuable legacy of land, peace and prosperity is, unfortunately, disappearing at an alarming rate.

Moshoeshoe invited the British to 'protect' his country and people from the threat of attack from the Boers, leading to the colonisation of the Kingdom by the British. The British introduced trade to the Kingdom and the Basotho started to export surplus grain and livestock to the new and emerging market in the booming mining sector in South Africa. The trade prosperity was short-lived when a new war for land started between the Basotho and the Boer trekkers. The Boers conquered large parts of the Basotho Kingdom and took over most of the arable land. The Basotho were left with the current small landmass that was clearly insufficient for production. They did not have any other productive industry apart from agriculture, so loss of land meant loss of wealth for the Basotho.

The loss of land and wealth, the increasing population and increasing demand for food forced the Basotho to seek alternative means of livelihood. The emerging mining industry in South Africa influenced Basutoland's new social and economic survival to a very large extent. This was the origin of the migrant labour system, which extracted the able-bodied

Basotho from their economy, leaving the domestic front with very limited manpower to develop the country. It also made the Basotho dependent on South Africa for remittances. From the social angle, the migrant labour system also separated families, leading to many female-headed households in Lesotho that, among other things, had no legal right to asset ownership.

During the apartheid era, Lesotho was seen to be a safe refuge point to oversee the various interests in South Africa from close range. This meant that donor funding of projects as well as moral support to Lesotho were abundant, but Lesotho did not use this windfall wisely. When the apartheid regime in South Africa fell, in 1994, Lesotho plunged into a big shock as foreign resource inflows shrank abruptly. The feeling in Lesotho between 1994 and today is that of abandonment, anger and isolation by old friends. The country is poorer than it was thought to be and the majority of people are trapped in a spiralling poverty trap.

The economy is still primarily based on subsistence agriculture, particularly livestock, although recurrent droughts are a major challenge for the production of crops (only 9% of the land is arable). The manufacturing sector is lean and comprises industries in food, beverages, textiles, apparel assembly, handicrafts, construction and tourism. Tables 6.3 and 6.4 illustrate the breakdown and trends in Lesotho's GDP.

**Table 6.3:** *Lesotho's GDP*

|                           | Gross domestic product (M million) |         |         |         |         |
|---------------------------|------------------------------------|---------|---------|---------|---------|
|                           | 2001                               | 2002    | 2003    | 2004    | 2005*   |
| At current prices         | 6 564,5                            | 7 368,9 | 8 053,6 | 8 833,0 | 9 222,7 |
| At constant (1995) prices | 4 022,0                            | 4 162,7 | 4 291,4 | 4 426,5 | 4 479,9 |
| Real change (%)           | 3,2                                | 3,5     | 3,1     | 3,2     | 1,2     |

\* CBL projections.

Sources: Central Bank of Lesotho, Annual Report; Bureau of Statistics

Thus, poverty has been built into the economic structure and character of the country by historical, economic and modern forces that have 'underdeveloped' Lesotho. Lesotho was designed as a labour reserve; to be unsustainable and to depend on outside economic interests that would profit from its dependence. AGOA and other contemporary global investors in Lesotho's garment factories are replicating such relationships, given their labour relations record.

**Table 6.4:** *Lesotho's GDP by sector, 2001 to 2005*

|                                   | Gross domestic product by sector<br>(M million; constant 1995 prices) |                |                |                |                |
|-----------------------------------|-----------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2001                                                                  | 2002           | 2003           | 2004           | 2005*          |
| <b>Agriculture</b>                | 689,9                                                                 | 661,0          | 648,8          | 650,1          | 661,1          |
| <b>Mining and quarrying</b>       | 3,4                                                                   | 3,5            | 3,9            | 10,3           | 11,3           |
| <b>Manufacturing</b>              | 608,1                                                                 | 650,2          | 683,9          | 724,1          | 664,0          |
| <b>Electricity and water</b>      | 230,2                                                                 | 243,5          | 249,7          | 248,3          | 257,0          |
| <b>Building and construction</b>  | 595,0                                                                 | 636,2          | 663,7          | 666,3          | 679,6          |
| <b>Wholesale and retail trade</b> | 288,6                                                                 | 301,5          | 317,4          | 332,4          | 340,7          |
| <b>Government and services</b>    | 1 178,1                                                               | 1 249,3        | 1 307,1        | 1 333,8        | 1 403,1        |
| <b>GDP at factor cost</b>         | <b>3 596,3</b>                                                        | <b>3 696,3</b> | <b>3 811,0</b> | <b>3 928,8</b> | <b>3 971,3</b> |
| <b>Net indirect taxes</b>         | 425,7                                                                 | 466,4          | 480,4          | 497,7          | 508,6          |
| <b>GDP at market prices</b>       | <b>4 022,0</b>                                                        | <b>4 162,7</b> | <b>4 291,4</b> | <b>4 426,5</b> | <b>4 479,9</b> |

\* CBL projections

Sources: Central Bank of Lesotho, Annual Report; Bureau of Statistics

## Significance of the agricultural sector in Lesotho

Agriculture employs 57 per cent of the labour force, mostly on subsistence farms. As a percentage of GDP, farming has declined from 50 per cent in the 1970s to just 18 per cent in 2000, and continues to decline. During the 1990s, about 13 per cent of the country was cultivated. This amount is shrinking as soil erosion, droughts (the country suffered from recurrent drought conditions in the 1980s and early 1990s) and the destruction of farm equipment during civil unrest in 1998 has taken a cumulative toll. To stimulate exports to South Africa, the government is liberalising price controls, improving roads and encouraging mono cropping of cut flowers, asparagus and fruits.

Most crops and livestock are produced in small villages distant from the major roads. To supplement crops and maintain 'food security' during drought years, most farmers also raise livestock. Sheep and goats that produce meat, milk and very high quality wool and mohair are the most important animals. Only nine per cent of Lesotho's land area is arable, but less than one per cent has high potential. Most cultivated land is in the

western lowlands. The principal food crops are corn, maize, wheat and sorghum.

Lesotho is a net importer of grains and other foodstuffs, as a result of droughts, frosts and other natural disasters. Some analysts argue that even if there were no drought, the Basotho cannot ensure household livelihood security through farming as they do not produce adequate food most years, thus requiring targeted assistance. Macroeconomic and social ties between Lesotho and South Africa are central to the underlying causes of poverty in Lesotho. For example, the slowdown in mining in South Africa and the subsequent shrinkage of remittances seriously affect Lesotho. Further, the devaluation of the rand has severely inflated food and transport prices, meaning that food is available in the markets and shops, but prices are beyond the reach of many households.

## **Lesotho's vulnerability and underlying causes of poverty**

In 2002, CARE<sup>2</sup> Lesotho undertook a national consultation survey on poverty and identified a threefold hierarchy of causes of poverty:

- Immediate causes<sup>3</sup>
- Intermediate causes<sup>4</sup>
- Underlying causes<sup>5</sup>

Addressing the underlying causes of poverty obviously calls for different strategies to those used to tackle the intermediate causes. Unemployment, for example, is a major cause of poverty in Lesotho, and the Basotho's views on this are clear from Tables 6.5 and 6.6.

However, unemployment is an intermediate and not an underlying cause. The Basotho have been deprived of means of production and made to depend on wage employment by historical economic processes. They have been incorporated into the cash economy of the region. One result is a mindset that sees wage employment as the crowning achievement of a successful livelihood. Even if more Basotho were determined to live by farming alone, the nation has been deprived of adequate land for sustainable agriculture-based livelihoods. The Basotho have been packed into their small territory in such numbers that sustainable land-based livelihoods for all would be difficult or impossible to achieve. These are the real

reasons why unemployment causes poverty in Lesotho. Unemployment is not, however, the most fundamental reason for the problems the nation faces.

**Table 6.5:** *2002 Lesotho national consultations: causes of poverty in detailed categories*

| Categories                         | Number of times issue mentioned | Percentage of consultations in which issue mentioned |
|------------------------------------|---------------------------------|------------------------------------------------------|
| Theft                              | 60                              | 47,6                                                 |
| Unemployment                       | 57                              | 45,2                                                 |
| Drought                            | 51                              | 40,5                                                 |
| Retrenchment of mine workers       | 50                              | 39,7                                                 |
| Harsh weather conditions           | 47                              | 37,3                                                 |
| Poor farming                       | 45                              | 35,7                                                 |
| Political instability              | 35                              | 27,8                                                 |
| Disease                            | 24                              | 19,0                                                 |
| Lack of improved farming inputs    | 21                              | 16,7                                                 |
| Poor range management, overgrazing | 20                              | 15,9                                                 |
| Malnutrition                       | 19                              | 15,1                                                 |
| Lack of concern for others         | 18                              | 14,3                                                 |
| High population growth             | 16                              | 12,7                                                 |
| Lack of agricultural extension     | 14                              | 11,1                                                 |
| Lack of equipment                  | 14                              | 11,1                                                 |
| Lack of money                      | 14                              | 11,1                                                 |

Source: Leboela and Turner, 2003:18

Using the same data as used in Table 6.5, Table 6.6 presents the causes of poverty in Lesotho using aggregated categories. Agricultural problems are shown to be the group of causes of poverty that are mentioned most often, bearing in mind that most of the consultations took place in rural areas. These problems included the kind of climatic hazard that afflicts agriculture in Lesotho, such as frost, hail and drought, as well as issues like lack of inputs and poor farming practice. The second most common cause of poverty was said to be the economic problems, which include retrenchments and unemployment. Third was health-related issues, ranging from illness to poor sanitation, and unclear and unclear water supplies. Political

**Table 6.6:** *2002 Lesotho national consultations: causes of poverty in aggregated categories*

| Categories                                               | Rank: rural lowlands and foothills | Rank: mountains and Senqu valley | Rank: all consultations |
|----------------------------------------------------------|------------------------------------|----------------------------------|-------------------------|
| Agricultural problems                                    | 1                                  | 1                                | 1                       |
| Employment problems in the economy                       | 2                                  | 2                                | 2                       |
| Health, sanitation, water supply                         | 3                                  | 3                                | 3                       |
| Politics, governance                                     | 4                                  | 5                                | 4                       |
| Crime, poor law enforcement                              | 5                                  | 4                                | 5                       |
| Poverty, hunger                                          | 6                                  | 7                                | 6                       |
| Poor natural resource management, land degradation       | 7                                  | 6                                | 7                       |
| Lack of equipment                                        | 8                                  | –                                | 10                      |
| Education                                                | 9                                  | 9                                | 9                       |
| Welfare, social problems                                 | 10                                 | 8                                | 8                       |
| Poor roads, infrastructure                               | –                                  | 9                                | –                       |
| Number of consultations from which information available | 74                                 | 51                               | 126                     |

Source: Leboela and Turner, 2003:19

and governance issues are the fourth set of causes for poverty in Lesotho. Poverty in Lesotho is unique in that it is mainly as a result of underlying and intermediate causes, rather than immediate causes.

Further, and more serious, is that Lesotho is locked into a subsidiary status and role as part of South Africa's commercial economy. The Basotho buy mostly South African goods at South African or higher prices. The currency is pegged to the South African rand, due to being in the Common Monetary Area (CMA), where monetary policy has to be synchronised with that of South Africa. For decades the Lesotho treasury has depended on its membership of the Southern African Customs Union (SACU), which continues to reduce its share of regional customs revenues.

Being a Least Developed Country (LDC), Lesotho has received aid transfers from the rich nations. Lesotho has also been a target for special trade concession by rich countries, notably the EU and the US. The most prominent instance of such benefit is the AGOA, passed by the US in 2000, which has facilitated foreign investment in new textile industries

in Lesotho, which export to the US and have employed thousands of Basotho. However, Lesotho remains a dependent client in such an arrangement. While beneficial, the new investments exposed Lesotho to typically very mobile and volatile capital, thus putting it into a new kind of vulnerability.

Another factor that has exacerbated the situation of poverty is HIV/AIDS, which has overtaken other causes of death. It is estimated that 31 per cent of Basotho are infected with this virus. The fact that most of the infected are between the ages of 15 and 49 poses a major threat to the productivity of the country, the cost of hospitalisation and other social costs associated with grants to the affected family members, especially orphans.

It is clear from the outset that most of the causes of poverty in Lesotho are structural and cannot be solved by the regional integration instrument. If SACU did not deliver Lesotho from this problem then it is highly unlikely that SADC FTA will.

To address the worsening poverty levels, since independence Lesotho has adopted strategies and plans to reduce poverty, yet the Basotho have become poorer. Something must have been wrong with the way the country planned and managed its resources. It is in light of this that the government of Lesotho is now pursuing an export-led economic growth strategy in the Poverty Reduction and Growth Facility (PRGF) programme, signed in collaboration with the IMF to fight poverty meaningfully. Under the PRGF, developing countries receive financial assistance from the IMF in the form of loans that carry an annual interest rate of 0,5 per cent. The IMF provides loans primarily to support countries' balance of payments, while technical assistance is geared towards advising on prudent macroeconomic policies. The entire PRGF programme is wholly consistent with the country's overall poverty reduction strategy.

## **Lesotho's trade arrangements**

Lesotho's trade regime is shaped not by SADC, but mainly by SACU (which was established in 1910 with the primary goal of promoting economic development through the regional coordination of trade). South Africa retained the sole decision-making power over customs and excise policies, as well as open access to the BLNS (Botswana, Lesotho, Namibia and Swaziland) market, while the high common tariff raised barriers for

South Africa's neighbours' exports to SACU. These trade-diverting effects benefited South Africa's manufacturers but weakened the smaller and more fragile economies like Lesotho. For Lesotho, revenue distribution remains a fundamental part of the SACU arrangements. To protect revenue of the BLNS countries, their share of revenue is calculated on the value of goods imported from all other member states during a given year as a percentage of total intra-SACU imports during that year.

Apart from SACU, Lesotho is also a beneficiary of various GSP regimes with a number of industrialised countries (EU-EBA, US-AGOA, India, China, Australia and Canada). With a high utilisation rate of US and EU preferences of 99,8 per cent, Lesotho favours trade with FTAs and Customs Union partners. The value of US and EU preferences is also relatively high, comprising about 15 per cent of Lesotho's bilateral exports. The phasing out of the WTO Multi-Fibre Agreement (MFA) has had a heavy impact on Lesotho. The apparel-assembly sector is also rapidly expanding on account of Lesotho qualifying for the trade benefits under the AGOA.

Lesotho relies heavily on remittances from miners employed in South Africa and customs duties from SACU as sources of revenue for the state. A small manufacturing base (based on farm products that support the milling, canning, leather and jute industries) is gradually developing following the decline in the number of mineworkers in Lesotho. The extreme inequality in the distribution of income remains a major drawback and led Lesotho to sign an Interim PRGF with the IMF in 1999.

## **Dynamics of Lesotho's trade in SADC**

Lesotho is a founding member of SADC and has implemented its commitments under the SADC FTA as part of the SACU offer. Lesotho's import sources are not as diversified as South Africa: the Customs Union provided 90 per cent of total imports, Asia six per cent, and the EU two per cent. Imports from the rest of the world (RoW) have also been increasing, signifying increased production levels boosted by preferential market access accorded to Lesotho by the AGOA and other arrangements. The increase in the imports is mainly due to greater imports of textiles, used as inputs into the production of clothing for the US market. The main imports for Lesotho are food, building materials, vehicles, machinery, medicines, textiles and clothing inputs, and petroleum products.



Lesotho has generally experienced a negative trade balance with South Africa, the rest of SADC (RoSADC) and the RoW. Trade between Lesotho and South Africa remained significant, although in 2005 the volume of trade declined twofold compared to the period before 1999, probably due to the effect of the AGOA and the favourable macroeconomic environment that prevailed in South Africa. Exports to South Africa, having increased substantially from 1999 to 2002, fell quite dramatically from 2002 to 2003. The drop was mainly due to declining exports of textiles, footwear and electronic goods.

Lesotho does not have sizeable exports destined for the rest of SADC, and the country's trade with the RoW is increasing faster than trade with its SADC partners. Indications are, however, that the country's regional and global trade relations might improve because of better integration through multilateral agreements that are already in place and those underway. Lesotho's exports to the RoSADC decreased markedly from 2000 to 2003, probably due to its focus on exports to the US. Imports from SADC also declined over the period, although they exhibited quite volatile up- and downswings. This is mainly due to the large imported targets for manufactures for export under AGOA from non-SADC countries.

Lesotho's main exports to the RoW are clothing, shoes and road vehicles, with other exports including wool and mohair, food and live animals. Lesotho's exports to the world increased significantly from 1999 to 2002. This was mainly related to the introduction of the AGOA, which gives Lesotho preferential market access to the US. Under the AGOA facility, 98 per cent of apparel produced for export in Lesotho is destined for the US market. This scenario has not promoted the regional trade integration that would address poverty, although the new jobs created under AGOA had a significant impact on Basotho workers. Lesotho still imports apparel for domestic use, mainly from South Africa.

## **Complementary programmes to poverty reduction**

Concurrently with the implementation of the SADC FTA, Lesotho is undertaking various other programmes that will directly and indirectly impact on poverty. First, Lesotho is fairly liberalised and embraces the foreign direct investment (FDI) regime for virtually all sectors of the economy through the provision of attractive incentives and a stable political

environment. As a result, investments in the manufacturing sector, which predominantly supports the country's economic growth, have provided far-reaching benefits for the locals in terms of new job creation, which was estimated at 60 000 jobs in 2004. Assuming a multiplier effect of 1:5, this means that over 250 000 Basotho have benefited, thus making a significant contribution to poverty alleviation. The country also takes cognisance of the expiry of the MFA and has embarked on the development of further competitive advantages through negotiations of FTAs such as SACU/US, SACU/European Free Trade Association (EFTA) and SACU/MERCOSUR. The US remains the largest market for Lesotho's exports, especially the garment industry.

The Lesotho Highlands Water Project (LHWP) is a body mandated to harness the water resources of the highlands of Lesotho. The LHWP supplies and transfers water to locals and to South Africa. The LHWP also generates hydroelectricity, which provides competitive tariffs for consumers. Additionally, the establishment of the natural environment and heritage programmes to partially mitigate the disruption of certain rural communities, and damage or loss to certain natural resources, by further developments has contributed to tourism development.

Lesotho is one of 16 countries taking greater responsibility for their own development that are eligible for Millennium Challenge Account (MCA) assistance. Lesotho has therefore been selected for MCA assistance, particularly on the criteria of values that Basotho uphold so dearly, namely, the prevailing peace and stability, accountability, good and democratic governance, respect for the rule of law, and human rights and fundamental freedoms. Lesotho's MCA proposal focuses on three main areas – water resources development, agriculture and food security, and industrial and tourism development – which are seen as programmes that will have a measurable impact.

The agricultural sector in Lesotho has been experiencing declining productivity and poor value-added performance. However, the agricultural policy framework has been shaped to encourage farmers and small-scale producers to take up a stronger market orientation and make use of new opportunities arising out of developing trade liberalisation, as enshrined in trade agreements to which Lesotho subscribes. Initiatives are underway to resuscitate the cannery for Lesotho's agro products. Another project which is closely linked with the agro industry is that of developing Moshoeshe International Airport into a cargo airport for the export of local produce,

as well as to service neighbouring SADC countries, particularly those within the SACU region. This is part of a bigger initiative to broaden the industrial base in Lesotho.

## Conclusion and recommendations

The link between SADC trade and the impact on poverty reduction in Lesotho is limited, as Lesotho's trade regime is determined within SACU, which is its major trading partner. Not much trade has been created with SADC non-SACU countries since the implementation of the FTA regime.

Further, macroeconomic and social ties between Lesotho and South Africa are central to the underlying causes of poverty in Lesotho, despite belonging to the same regionally integrated bodies – SACU and the SADC FTA. Lesotho is locked into a subsidiary status and role as part of South Africa's commercial economy. Its revenue base relies too much on revenue sharing in SACU and migrant workers' remittances from South Africa, as well as on exports to the US under AGOA.

In addition, climate variations are an increasing feature of Basotho livelihoods and household food deficit has become the norm. To address these structural challenges causing worsening poverty levels in Lesotho, the following policy interventions are recommended:

- Government systems need to be changed to become responsive to demand-driven initiatives that alleviate poverty. There is a need to have a national debate on the broad policy direction/s that the government may want to pursue in the future, for example a review of the land policy.
- There is a need to strengthen the capacity of the Ministry of Agriculture to implement its new extension policy, which encourages the development of farmer associations with their own farmer extension facilitators.
- There is a need for an effective monitoring mechanism to ensure efficient and effective input and output marketing systems that are suitable for small-scale farmers; and to focus on providing access to seeds, other inputs, advice or support for poor households.
- SADC needs to create a more enabling regional trade policy and regulatory environment in order to encourage freer movement of grains

by relaxing import and export restrictions. SADC must also harmonise and eliminate regional tariff and non-tariff charges on regionally sourced grain.

- The private sector needs to be encouraged and supported to organise itself to input into policy making and implementation processes for the economy to grow fast enough to reduce poverty in Lesotho.
- Diversification is encouraged as Lesotho relies too much on a few products. Lesotho needs to make efforts to create and improve other sectors which have the potential of attracting labour-intensive FDI and to adequately address obstacles faced by existing foreign affiliates to upstream investment in the garment industry.
- Lesotho needs to embark on the development of further competitive advantages through the negotiation of FTAs.

## Notes and references

- 1 The people of Lesotho.
- 2 CARE. 2002. *Lesotho Emergency Food Security Assessment Report*.
- 3 Relate to urgent crisis in livelihood – drought, floods, diseases, etc. These elicit a relief response from outside agencies.
- 4 Relate to lack of material resources or their inadequate qualifications or performance. Relief response is to supply agricultural inputs and improve on infrastructure.
- 5 Relate to the issues of rights, empowerment and status. These are the reasons for the existence of intermediate causes of poverty, which are rooted in power structures and relationships between different groups in local, national and global society.

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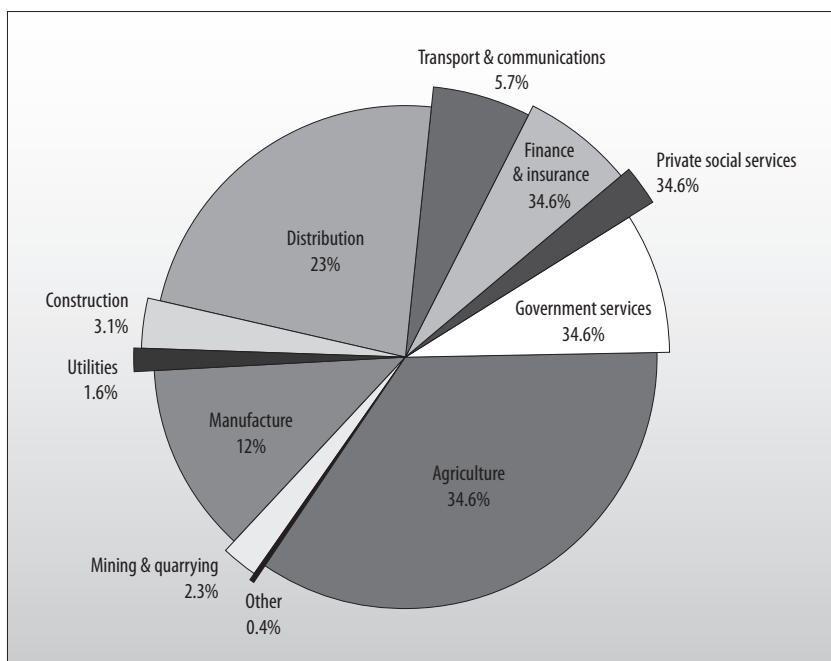
## Malawi Case Study

Nelson Nsiku

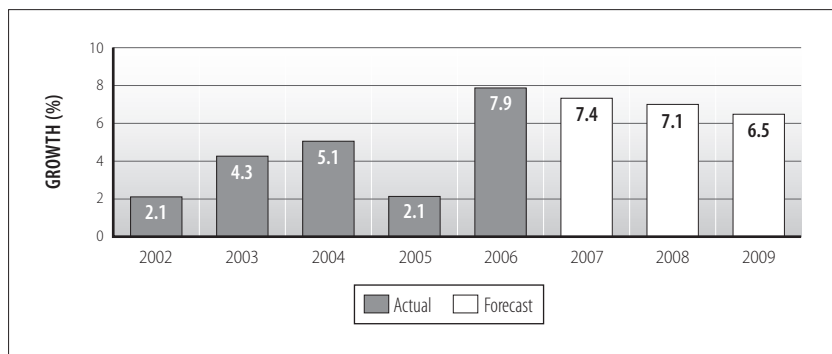
### Malawi trade liberalisation within multilateral, regional and autonomous frameworks

MALAWI IS AMONG THE TEN POOREST NATIONS IN THE WORLD,<sup>1</sup> WITH A GDP per capita of around US\$200 and a population largely rural, poor and almost entirely dependent on subsistence agriculture. Agriculture contributes close to 35 per cent of GDP and almost 90 per cent of export earnings. Agriculture as the mainstay of the economy was the key driver of performance in 2007, growing by 10,8 per cent. The successful deployment of a national fertiliser subsidy, coupled with consistent rains across most of the country, has resulted in bumper maize harvests, the most important staple crop.

**Figure 6.1:** *Contribution to GDP*



Source: Adaptation of Markets Watch: Malawi, Standard Bank, May 2008

**Figure 6.2:** *Malawi GDP growth*

Source: Adaptation of Markets Watch: Malawi, Standard Bank, May 2008

The manufacturing base is not very substantial, and in recent years has declined from a high of 17 per cent of GDP in 1994 to just 11 per cent in 2007. The country's perennial trade deficit is largely financed by inflows of donor funds, which generally account for between 20 to 40 per cent of the total revenue base.

Yet, in recent years, the economy has shown some measure of relative stability and steady growth: real GDP growth peaked at 7.9 per cent in 2006; debt cancellation after reaching Heavily Indebted Poor Country (HIPC) completion point; interest rates subsequently fell from over 35 per cent in 2002 to 15 per cent in 2008; single-digit inflation rate (2008: 9.9%); a generally stable exchange rate; and an improved credit rating (Fitch's Rating) from CCC to a B– (March, 2007).

The country has been working on strengthening food security through a wide range of interventions and tools, including agricultural technology and investments in irrigation, as well as the famous fertiliser subsidy programme. The next section in this study further discusses the agricultural sector, especially small-scale production and microfinance, contributions to GDP, and poverty reduction in Malawi over the period 2000 to 2006.

As a small economy, Malawi is highly integrated into the world economy through trade as a percentage of its GDP, and therefore a strategic and appropriate trade policy is critical to its economic growth and poverty reduction. Malawi is a member of the WTO (acceded on 1 January 1995), of the Common Market for Eastern and Southern Africa (COMESA) and of the SADC TP, and has bilateral trade agreements with Zimbabwe, the RSA, Botswana and Mozambique (and is negotiating others with Zam-

bia, Tanzania and Kenya). It is important to note that Malawi joined the COMESA FTA that was launched in 2001. Also on this list are the Sugar Protocol and EBA with the EU, the Cotonou Agreement leading to the EPA, and AGOA. In this study, 12 respondents (46%) acknowledged experiencing some effect/impacts from Malawi's unilateral liberalisation, while COMESA and the WTO scored 86 and 71 per cent respectively, and little effect from the bilateral liberalisation.

Under the WTO, Malawi is categorised as an LDC and has thus undertaken limited liberalisation. Under the EBA, Malawi has duty- and quota-free access to Europe's markets for all products except arms and ammunitions. As with the GSP, the EBA initiative relies on the WTO's 'Enabling Clause', allowing countries to accord 'differential and more favourable treatment to developing countries', which the EU can choose to drop unilaterally.

Much of Malawi's trade liberalisation was undertaken autonomously, encapsulated in its decade-long attempts at economic liberalisation. Malawi has also been through a series of Enhanced Structural Adjustment Facilities (ESAF) supported by the IMF. Programmes cover not only the liberalisation of fiscal and monetary policies but also trade liberalisation to encourage diversification of both imports and exports and the privatisation of public enterprises.

The Malawi Growth and Development Strategy (MGDS) is export led, driven by a clear trade liberalisation philosophy (albeit with a degree of government intervention in support of local productivity – especially small agricultural). Trade liberalisation is promoted not only because rising exports would earn revenue to stabilise finances and support debt payments, but also because greater outward orientation of the economy would supposedly enable Malawi to tap lucrative foreign markets and provide a platform for longer-term growth through, among other things, GDP growth, creation of employment and affording the poor access to food and productive resources.

## **Implementation of the SADC FTA: progress and challenges**

In 2000, Malawi signed up to the SADC TP, whose objective is the establishment of an FTA for 85 per cent of SADC intra-trade by 2008 and 100 per cent of all trade by 2012. Intra-SADC trade, with the exception



of the RSA, is primarily trade in similar commodities. Just like many other SADC countries, Malawi excluded from liberalisation as sensitive products four categories of products, namely agricultural products for food security reasons; transport/motor vehicles for revenue purposes; energy for strategic reasons; and manufacturing for infant industry considerations.

Malawi significantly depends on trade taxes for its budget revenue, and apparently the SADC region – the RSA in particular – is the primary source of Malawi's imports. Consequently, removal of duties under the SADC FTA means serious erosion of the revenue base for Malawi. Revenue loss is considered to be the major cause of protectionism in Malawi, given that alternative revenue sources are limited. Governments may cut social expenditures or levy new domestic taxes to make up for the loss in revenue (from custom duties), such as value added tax (VAT). Malawi has settled for the latter levy – VAT – and maintains social expenditure. However, the Malawi government attempts to ease the effect on the poor by targeting social expenditure on the poor, while the VAT levy exempts basic foodstuff such as maize, flour, children's food, etc., regardless of whether they are imported or not. In 2008, in his budget statement, the Finance Minister reduced the standard rate of VAT from 17,5 per cent to 16,5 per cent.

However, in Malawi, collecting revenue from customs duties is easier than from other taxes, including VAT, owing to weak administration. As a result, Malawi has been slow in reducing the duties in line with its commitments under the SADC TP. On the other hand, some countries (e.g. India) have shown that tariff cuts can boost revenue because they encourage higher trade flows and increase the number of duties. However, Malawi seems not to be ready for now. Relative to the rest of SADC, Malawi has liberalised more compared to the tariff phase-down offered to the RSA.

The tariff structure remains escalatory, favouring primary raw materials and becoming higher on consumer goods and some foodstuffs, where tariffs can reach up to 25 per cent (in the case of sugar). This is designed to encourage local processing by providing relatively high effective protection. However, the regional preferential and FTAs (notably COMESA, SADC and Zimbabwe agreements) of which Malawi is a part sometimes negate this effective rate of protection as final goods are imported duty free (like wheat or meslin flour, and the surprising HS 5201: Cotton, which comes duty free from COMESA yet pays 25 per cent from SADC).

**Table 6.7:** *Tariff phase down in line with SADC FTA (2006)*

| MW 2006 Phase-down | %  | No. of tariff lines reduced |
|--------------------|----|-----------------------------|
| 25 ↓ 20            | 20 | 7                           |
| 25 ↓ 15            | 15 | 1 256                       |
| 25 ↓ 10            | 10 | 10                          |
| 15 ↓ 10            | 10 | 3                           |
| 10 ↓ 7             | 7  | 2                           |
| 15 ↓ 5             | 5  | 22                          |
| 10 ↓ 5             | 5  | 620                         |
| 5 ↓ 2              | 2  | 497                         |
| 20 ↓ 0             | 0  | 248                         |

Source: MRA, Government Notice of Tariff Reductions under SADC FTA, August 2006

**Table 6.8:** *Poverty-related products – Top 10 imports and exports into SADC*

| Imports                                                       | Tariff   |
|---------------------------------------------------------------|----------|
| H2710: Oils petroleum, bituminous, distillates, except crude  | 0 - 10%  |
| H2401: Tobacco unmanufactured, tobacco refuse                 | 10 - 25% |
| H8704: Motor vehicles for the transport of goods              | 0 - 25%  |
| H1005: Maize (corn)                                           | 0%       |
| H3105: Fertiliser mixtures in packs of < 10kg                 | 0%       |
| H3102: Mineral or chemical fertilisers, nitrogenous           | 0%       |
| H8705: Special purpose motor vehicles                         | 0 - 25%  |
| H8703: Motor vehicles for transport of persons (except buses) | 0 - 25%  |
| H2523: Cement (portland, aluminous, slag or hydraulic)        | 10%      |
| H1101: Wheat or meslin flour                                  | 0%       |
| Exports                                                       | Tariff   |
| H1701: Solid cane or beet sugar and chemically pure sucrose   | 25%      |
| H2401: Tobacco unmanufactured, tobacco refuse                 | 10 - 25% |
| H0902: Tea                                                    | 10 - 25% |
| H1207: Oil seeds and oleaginous fruits                        | 0%       |
| H5201: Cotton, not carded or combed*                          | 25%      |
| H1202: Ground-nuts, not roasted or otherwise cooked           | 10%      |

**Table 6.8** (*cont.*)

| Exports                                                         | Tariff   |
|-----------------------------------------------------------------|----------|
| H4001: Natural rubber and gums, in primary form, plates, etc.   | 10%      |
| H1201: Soya beans                                               | 10%      |
| H6203: Men's or boys suits, jackets, trousers, etc. not knitted | 25%      |
| H4819: Paper, board containers, packing items, box files, etc.  | 10 - 25% |
| * NOTE: H5201: Cotton, not carded or combed – COMESA rate       | 0%       |

Of particular significance is that over 85 per cent by value of the items exported are primarily agricultural products, which have nominal value added in Malawi, if at all. There is a small but growing trade in manufactures in the form of clothing, mainly due to AGOA and the bilateral agreement with South Africa under the Malawi, Mozambique, Tanzania and Zambia (MMTZ) initiative.

**Table 6.9:** *Malawi's trade balance with SADC: RSA and RoSADC, 2000–2006 (US\$ million)*

|                           | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------------------|------|------|------|------|------|------|------|
| Exports to SADC           | 72   | 88   | 97   | 125  | 135  | 140  | 209  |
| Imports from SADC         | 290  | 311  | 401  | 452  | 534  | 730  | 717  |
| Trade balance with SADC   | -219 | -223 | -304 | -327 | -399 | -589 | -508 |
| Exports to RSA            | 35   | 43   | 63   | 81   | 72   | 96   | 6    |
| Imports from RSA          | 222  | 238  | 290  | 314  | 296  | 379  | 41   |
| Trade Balance with RSA    | -187 | -196 | -227 | -233 | -224 | -283 | -35  |
| Exports to RoSADC         | 36   | 45   | 34   | 45   | 63   | 44   | 202  |
| Imports from RoSADC       | 68   | 73   | 111  | 138  | 238  | 350  | 675  |
| Trade balance with RoSADC | -32  | -28  | -77  | -93  | -175 | -306 | -473 |

Source: Malawi Revenue Authority (2007 data adjusted at average annual US \$ = MK rates)

Malawi's main export markets include the EU (the largest), the US, South Africa and the RoSADC, according to SADC Trade Review (2005). Malawi's imports are very much more diverse, but fuels and fertiliser necessary to cover agricultural sector requirements constitute the major imports. From the SADC region, major imports include processed foods, machinery, chemicals, toothpaste, lime, oil, odomos, fertiliser, spare parts

for vehicles and machinery, and packing materials. On the other hand, the inflow and availability of foreign exchange from exports and the release of donor aid are the key determinants of import volumes.

The challenges of exploiting the potential offered by the FTA are numerous. Fears of revenue erosion coupled with high transport costs, border delays, corruption, health standards and rules of origin are major importation bottlenecks. On the other hand, exports are affected by high transport costs, long border procedures, communication and knowledge of the market. In contrast to importers, exporters are less concerned with border corruption (presumably on the other side of the borders) and export permits.

Attempts to increase the export orientation of the sector through the introduction of export-processing zones to provide generous tax and other incentives to encourage exports have not made any marked impact on the sector, especially in employment creation. Substantial progress has been made in many areas to reform the economy, but Malawi's development continues to be heavily constrained by a number of key factors, such as inadequate infrastructure, human resources and high interest rates. These may be partly responsible for the upsurge in imports (it may seem cheaper to import than to manufacture locally) and capital-intensive investment to avoid huge labour and working capital costs.

**Table 6.10:** *Summary of importation and exportation hurdles within SADC*

| Key SADC hurdles faced when <i>importing</i> | 1  | 2 | 3  | 4 | 5  | Total respondents |
|----------------------------------------------|----|---|----|---|----|-------------------|
| Duty                                         | 6  | 3 | 3  | 0 | 16 | 28                |
| Border corruption                            | 6  | 3 | 12 | 3 | 3  | 27                |
| Paperwork                                    | 2  | 6 | 4  | 6 | 0  | 18                |
| Clearance                                    | 6  | 0 | 9  | 6 | 3  | 24                |
| Transport costs                              | 19 | 7 | 0  | 4 | 0  | 30                |
| Communication                                | 8  | 5 | 8  | 8 | 0  | 29                |
| Health standards                             | 0  | 4 | 11 | 0 | 11 | 26                |
| Rules of origin                              | 0  | 4 | 11 | 7 | 7  | 29                |
| Key SADC hurdles faced when <i>exporting</i> | 1  | 2 | 3  | 4 | 5  | Total respondents |
| Procedures                                   | 7  | 0 | 14 | 7 | 0  | 28                |

**Table 6.10** (*cont.*)

| Key SADC hurdles faced when <i>exporting</i>                          | 1  | 2  | 3  | 4  | 5  | Total respondents |
|-----------------------------------------------------------------------|----|----|----|----|----|-------------------|
| Border corruption                                                     | 4  | 8  | 4  | 4  | 11 | 31                |
| Paperwork                                                             | 0  | 6  | 4  | 6  | 0  | 16                |
| Clearance                                                             | 3  | 3  | 3  | 15 | 0  | 24                |
| Transport costs                                                       | 15 | 7  | 4  | 4  | 0  | 30                |
| Communication                                                         | 5  | 11 | 5  | 8  | 0  | 29                |
| Export permit                                                         | 0  | 7  | 4  | 7  | 11 | 29                |
| Knowledge of SADC market                                              | 5  | 7  | 11 | 5  | 0  | 28                |
| NOTE: Ranked by 30 respondents from 1 (not severe) to 5 (prohibitive) |    |    |    |    |    |                   |

## The food security success story of Malawi

Malawi, a famine-prone country, has made good progress in the area of food security. Since 2004, every year's budget envisages building on the food security success by extending the subsidised fertiliser programme to small-scale farmers. The extent to which government attaches importance to food security is clearly demonstrated in the large budget increment to the Ministry of Agriculture and Food Security, especially the increase in the allocation to the combined fertiliser and seed subsidy programme, which increases each year. For example, in the 2007–2008 budget the agriculture sector was allocated K32,7 billion, an increase of K11,2 billion, representing a 52,7 per cent increase in nominal terms. Agricultural allocation is 14,3 per cent of the national budget and 5,2 per cent of the GDP.

The fertiliser subsidy programme was allocated K17,7 billion, about K7 billion more than 2007–2008 approved allocation.<sup>2</sup> The revised 2007–2008 figures show that the fertiliser subsidy alone was 2,76 per cent of the GDP (and went up to 2,84% in the 2008–2009 budget). It is important to note that K7,2 billion was earmarked for development projects. This amount was earmarked for the Dwangwa sugarcane out growers' project, supporting the extension services and construction of two grain silos in Mzuzu and Luchenza, each with a storage capacity of 20 000 metric tonnes. When the silo programme is complete, Malawi will possess one of the most modern and extensive networks of food storage facilities in the southern Africa region.

The pro-agriculture budgets have gone a long way to contributing to sustainable economic growth rates and reducing poverty. The National Statistical Office Integrated Household Survey<sup>3</sup> estimated that the poverty rate was 52,4 per cent (6,3 million), compared to approximately 54,1 per cent estimate from the 1997 2008 IHS1. This study, however, established that respondents are indifferent as to whether poverty has reduced. The local media highlights food security resulting from the fertiliser subsidy and positive growth rates over the past six years as a pointer to reducing poverty.

## High impact poverty interventions and lessons

### The case of maize and fertiliser trade

The fertiliser subsidy to maize farmers in Malawi is deemed the poverty reduction programme with the highest impact. Food security is not only about growing your own food, so the question is, how can poor rural households be made food-secure? Can rural households that are not food self-sufficient – i.e. those that grow little or no food – still be food-secure if food is made available at affordable prices?

This is the key to the success of any (input) subsidy. Free inputs programmes increase supply and reduce demand pressure sufficiently to keep output prices in check. Thus, poor families are able to buy food in the market during the ‘hungry period’. An essential condition for this to work is the scale of the intervention in the production of food, that is, the extent of fertiliser use.

**Table 6.11:** *Perceived impact of Malawi poverty reduction programmes*

| Poverty reduction programme(s) with <i>highest</i> impact | Respondents | %   |
|-----------------------------------------------------------|-------------|-----|
| a. Fertiliser subsidy to maize farmers                    | 16          | 57% |
| b. Fertiliser subsidy to commercial farmers               | 3           | 11% |
| c. New methods of agriculture production                  | 3           | 11% |
| d. Irrigation scheme                                      | 3           | 11% |
| e. Training                                               | 3           | 11% |
|                                                           | 28          |     |

Table 6.11 (cont.)

| <i>Impact of major programme</i>                                                                  |             |     |
|---------------------------------------------------------------------------------------------------|-------------|-----|
| <b>Increased maize production. However, fertiliser subsidy programme is marred by corruption.</b> |             |     |
| <i>Sustainability of the major programme</i>                                                      | Respondents | %   |
| <b>Financial</b>                                                                                  | 8           | 29% |
| <b>Environmental</b>                                                                              | 12          | 43% |
| <b>Built capacity</b>                                                                             | 8           | 29% |
|                                                                                                   | <b>28</b>   |     |
| <b>Poverty reduction programme(s) with <i>least</i> impact</b>                                    |             |     |
| <b>a. High yield seeds</b>                                                                        | 20          | 67% |
| <b>b. Revival of extension scheme</b>                                                             | 10          | 33% |
|                                                                                                   | <b>30</b>   |     |

**Box 6.1:** *The case of the Malawi fertiliser subsidy*

Despite the structural adjustment and liberalisation push by donors in the 1990s, and the subsequent widespread southern Africa droughts that followed through 2000, Malawi government initiatives to boost maize production were scaled back. Soon, the famous food crisis of 2001 struck. Then the blame game started: government pointed fingers at donors, accusing them of trying to run the country, while donors blamed the government of corruption. In the 2001–2002 season, weather patterns of early rains, late rains, a dry spell in February and floods in the escarpment and on the lakeshore were repeated, exacerbated by low input use, which forced the government to import food and seek food aid as input subsidies continued to fall. This worsened the trade balance in 2001–2002.

The election of President Dr Bingu Wa Mutharika, in 2004, marked a new chapter in sustained input subsidy. Struggling to find the formula, again in that year government resorted to significant food aid sales (food price subsidy). The input subsidy formula seemed to have been right in 2005–2006. The strategy was supported by very high maize prices in the growing season and some harvest price support, a maize export ban, and a fertiliser and maize seed subsidy through the government parastatals, the Agricultural Development and Marketing Corporation and the Smallholder Farmer Fertiliser Revolving Fund of Malawi (ADMARC & SF-FRFM). National output jumped by over 100 per cent, from 1 225 234 to 2 720 762 tonnes. In 2006–2007, the government scaled up the agricultural input subsidy. The fertiliser and maize seed subsidy was implemented through ADMARC/SFFRFM and the private sector, resulting in the much talked about 3 444 456 tonnes.

## Maize production and price incentives

There is a major dilemma in maize pricing. Higher maize prices are needed to make purchased input use more profitable, but only 10 per cent of Malawian maize producers are net sellers of maize, while 60 per cent are net buyers of maize. Hence, most people's livelihoods and food security are affected by high maize prices. High maize price variability affects both producers and consumers, as low prices present risks to producer investments in inputs by those producers who aim to produce a marketable surplus, while high prices present risks to consumers (who include the majority of smallholders). The risks of high maize prices encourage poor consumers to grow as much for their own staple food as possible, even at very low levels of productivity. At the same time, there are limited higher-return income earning opportunities within or outside agriculture.

Figure 6.3: Total fertiliser sales and maize production



Source: Adapted from 2006/07 Agriculture Inputs Subsidy Programme (AIPs) February 2008 Report, Ministry of Agriculture and Food Security (MoAFS), 2008

The 1999 and 2000 harvests were too large in the sense that they created a surplus of maize and drove down prices. The logic of this argument is that agricultural producers will respond to low prices of a particular crop by planting less of that crop next season because it is not likely to generate a profit. **Thus, a surplus year leading to low prices will be followed by a year of low output.**

The problem with this argument is that although commercial farmers, such as medium- and large-scale farmers and estates, may respond in this way to price incentives, smallholders in Malawi do not. Most of the maize that smallholders produce is for consumption rather than sale. **In the smallholder sector, maize has the lowest market ratio (sales as a percentage of output) of any of the main crops, that is, tobacco, sugar and tea.**<sup>4</sup> It can be argued that since smallholder produc-



tion decisions are not based on output prices, we need not fear that lower maize prices following a good harvest will act as a disincentive to smallholder production in the following season. On the other hand, low maize prices are good for smallholder food security because smallholders are net purchasers of food. Furthermore, powerful political influence and price support measures tend to distort this market feature.

Generally, Malawi continues to underproduce maize and other foods in relation to its population. But does the country need to grow more food (i.e. with the fertiliser subsidy), or could it rely on imports and food aid? In 2002–2003, the government and donors managed to reduce by half the number of people affected by extreme food insecurity compared with 2001–2002, although the 2002 harvest was slightly worse than the 2001 harvest. The World Food Programme (WFP) led a massive food aid distribution exercise. The government imported maize commercially and agreed with the IMF on a consumer price subsidy, which allowed it to fix the price of maize at around MK17 per kg. The food aid effort helped reduce demand pressure in the maize market, while maize imports added to supplies. Food prices remained moderate throughout the ‘hungry period’.<sup>5</sup>

However, imports and food aid were expensive. The cost of imported maize was \$220 per tonne, while that of food aid was \$450 per tonne. This compares with between \$43 and \$48 per tonne for producing maize with the Extended Target Input Programme (ETIP) in 2002 and 2003.<sup>6</sup> A key problem is that most rural consumers do not have the purchasing power to buy maize imported at such a high cost, unless the government continues to provide price subsidies. This would, however, make a big hole in public finances, as it did in 2002–2003 (reported by the Finance Minister during the 2008 Budget speech).

Source: Nsiku (2008) (Unpublished) Fertiliser Subsidy: Is It a Successful Industrial Policy for Malawi Yet? (Unpublished), Blantyre

## Imports versus food aid

Despite the fact that subsidies are often described as wasteful and a misuse of resources,<sup>7</sup> at least in the medium term SADC FTAs can provide the market with both maize and fertiliser to maximise this fertiliser subsidy model. At the moment, Malawi government resources are not being utilised optimally, given the limited productive capacity. Optimal resource allocation is using limited factors of production to create the best possible outcome for society – ‘best’ being the point rendering the highest output at the lowest cost. When supply equals demand, the market has cleared and there is optimal allocative efficiency. Therefore, export bans on maize as well as tariffs on fertiliser distort the market efficiency of the region.

The effects of higher international food prices in Malawi are not, however, straightforward, as they have to be considered in the context of regional markets. In years when there is a shortfall in production across the whole region, then higher international food prices will lead to higher import prices. Northern Mozambique is likely to be an increasingly important supplier in the future, particularly into Malawi. Taking account of these issues and examining the distribution of average annual prices in Nampula, Mozambique, with allowance for transport costs into Malawi, suggests a possible fall in regional prices in the future.<sup>8</sup> An alternative view is that regional prices will also be affected by upward pressures from rising fertiliser costs and bad weather resulting from climate change, and that shifts into cassava will lead to falls in supply, counteracting any falls in demand, which may also be affected by increased demand for biofuel production owing to energy demands in South Africa.

### Small-scale agricultural production, the microfinance policy in Malawi

Another high-impact intervention relates to microfinance for small-scale agricultural production. The main objective of the Malawi government's microfinance policy is 'to promote the development of a sustainable microfinance industry which provides credit, savings opportunities and other financial services to low-income people, which will create wealth and employment in Malawi'.<sup>9</sup> Micro, small and medium scale enterprises (MSMEs) is the strategy used to diversify into other sectors with greater value addition.

**Table 6.12:** *GDP by sector of origin at 1994 factor cost, 2000–2006 (MK million)*

|                                | 2000     | 2001     | 2002     | 2003     | 2004     | 2005     | 2006     |
|--------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Agriculture                    | 5 205,70 | 4 893,36 | 5 025,48 | 5 211,42 | 5 357,34 | 4 901,97 | 5 485,30 |
| Small scale                    | 4 054,60 | 3 859,98 | 3 844,54 | 4 194,39 | 4 131,48 | 3 648,09 | 4 173,42 |
| Large scale                    | 1 151,10 | 1 032,54 | 1 179,16 | 1 051,81 | 1 229,56 | 1 235,71 | 1 307,38 |
| Annual percentage growth rates |          |          |          |          |          |          |          |
| Agriculture                    | 5,3      | –6       | 2,7      | 3,7      | 2,8      | –8,5     | 11,9     |
| Small scale                    | 1,6      | –4,8     | –0,4     | 9,1      | –1,5     | –11,7    | 14,4     |
| Large scale                    | 21       | –10,3    | 14,2     | –10,8    | 16,9     | 0,5      | 5,8      |

**Table 6.12** (*cont.*)

|             | 2000                           | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-------------|--------------------------------|------|------|------|------|------|------|
|             | Percentage contribution to GDP |      |      |      |      |      |      |
| Agriculture | 39,5                           | 38,8 | 39   | 35,7 | 34,9 | 31,3 | 32,4 |
| Small scale | 30,8                           | 30,6 | 29,9 | 27,4 | 25,7 | 22,2 | 23,5 |
| Large scale | 8,7                            | 8,2  | 9,2  | 8,3  | 9,2  | 9,1  | 8,9  |

Source: National Statistical Office, 2007

(Note, the fertiliser programmes following the drought of 2001 and the launch of the Malawi Poverty Reduction Strategy in 2001 saw a jump in agricultural economic activity from 2002 to date. Small-scale agriculture particularly benefited from the programme.)

Small-scale productivity fluctuated between -4,8 per cent and 14,4 per cent between 2002 and 2006, and similar patterns for large-scale productivity prevail. The average contribution to GDP of 26 per cent is substantially higher (albeit declining) than large-scale producers in the same period, which is somewhat steady.

In the 2002 to 2003 agricultural year, 54 300 farmers accessed loans from the Agricultural Productivity and Investment Programme (APIP) against the targeted 55 000 farmers. Some farmers obtained their loans from other microfinance institutions such as the Malawi Rural Finance Company (MRFC) and the Savings and Credit Cooperatives (SACCOs), despite high interest charges. The high interest rates worked to the disadvantage of small-scale farmers. Furthermore, about 40 000 of the planned 50 000 treadle pumps were bought for distribution (at a market price of MK10 000), to increase small-scale irrigation (Malawi PRSP 2002–2003, Annual Review Report, June 2004). Small-scale farmers could not afford treadle pumps at MK10 000, while the large-scale farmers could access loans as they could offer collateral security. Some of the most limiting factors impinging on agricultural productivity include declining soil fertility and soil degradation, low access to credit, weak extension systems, low technology development, and over-dependence on rain-fed agriculture.

In the 2003–2004 agricultural year, efforts to expand, strengthen and increase access to credit (through SACCOs and village banks) failed to meet the set target of forming 16 village banks. Lack of technical expertise and coordination between implementing institutions, which include the Ministry of Agriculture and the Ministry of Commerce and Industry, was

cited as the reason. Although SACCOs and other microfinance organisations existed, only 11 per cent of farmers had access to loans due to high interest rates, prohibitive repayment schedules and collateral requirements. Twelve microfinance institutions were operating in the country and disbursed loans to 285 074 clients. The total amount of the portfolio disbursed was MK1,9 billion.<sup>10</sup>

Achievements in accessing microfinance for agriculture productivity are summed up in the 2004–2005 report as follows: 175 village banks (well above the 2003–2004 target of 16) were formed based on farmers' cooperatives and associations, and 180 137 clients had accessed loans through the APIP and MRFC (up from 54 300 in the 2002–2003 agricultural year) by January 2006. Overall, the limiting factors impinging on agricultural productivity weigh heavily against small-scale productivity, resulting in fluctuations and steadily declining GDP contribution. The contribution of the agriculture sector has largely been stable in real terms.

## **Assessment of the impact of SADC FTA on poverty reduction**

Although the relationship between trade liberalisation and poverty has received considerable attention in recent years, establishing the precise link between changes in trade policy and the overall effects on poverty has proven to be a difficult task. One of the difficulties lies in the fact that trade affects individuals in various ways. It may affect their income (through effects on employment, distribution of resources and/or growth), and it may affect their expenditure (through its effect on the prices of consumer goods).<sup>11</sup> Trade reform may also affect the poor through its impact on government revenue and spending. The combined impact of these different effects tends to be difficult to assess. This may explain why most of the evidence on trade and poverty is indirect evidence that focuses on one or two of the ways that trade may affect poverty.<sup>12</sup>

To explore this linkage, this section highlights the perception of the respondents (31 out of 50) of the effect of trade liberalisation through SADC FTAs on poverty reduction in Malawi. Specifically, perceptions regarding poverty levels are that poverty has reduced in Malawi during the period 2000 to 2008 (only 20 per cent of respondents said poverty had increased – Table 6.13); however, the extent of reduction or increase is 50/50, with rather weak correlation with the country's involvement in the SADC FTA.

**Table 6.13:** *Perception of Malawi's poverty status 2000–2008*

| Perception of Malawi's poverty status                     | Respondents | %  |
|-----------------------------------------------------------|-------------|----|
| Reduced                                                   | 24          | 80 |
| Increased                                                 | 6           | 20 |
|                                                           | 30          |    |
| Extent of poverty reduction/increase                      |             |    |
| Small                                                     | 12          | 50 |
| Large                                                     | 12          | 50 |
| Very large                                                | 0           | 0  |
|                                                           | 24          |    |
| Correlation of poverty reduction with SADC Trade Protocol |             |    |
| None (No)                                                 | 13          | 50 |
| Some (Yes)                                                | 13          | 50 |
|                                                           | 26          |    |

**Box 6.2:** *Trade – Malawi: Clothing and textiles become unstitched*

Following the liberalisation of the global trade in textiles and clothing between 1994 and 2005, Malawi has seen an influx of second-hand clothing on the local market. But while consumers have been happily buying cheap items on almost every street corner, the country's textile industry has been steadily collapsing. This was happening despite Malawi being allowed to export textiles and garments to the US market under the preferential access provided by AGOA.

Up to 65 per cent of Malawians are living in poverty, which means having less than US\$1 per day. Most people would rather spend the little they have on necessities other than clothing. Jacqueline Chipembere (23), from Malawi's capital Lilongwe, is one of thousands of Malawian consumers who have stopped buying apparel made in their country. She says second-hand clothes are a lot cheaper than the garments made in Malawi. 'I only have to pay something like US\$1 for a second-hand blouse, but to buy a garment that is made here I have to part with a minimum of US\$15,' she says.

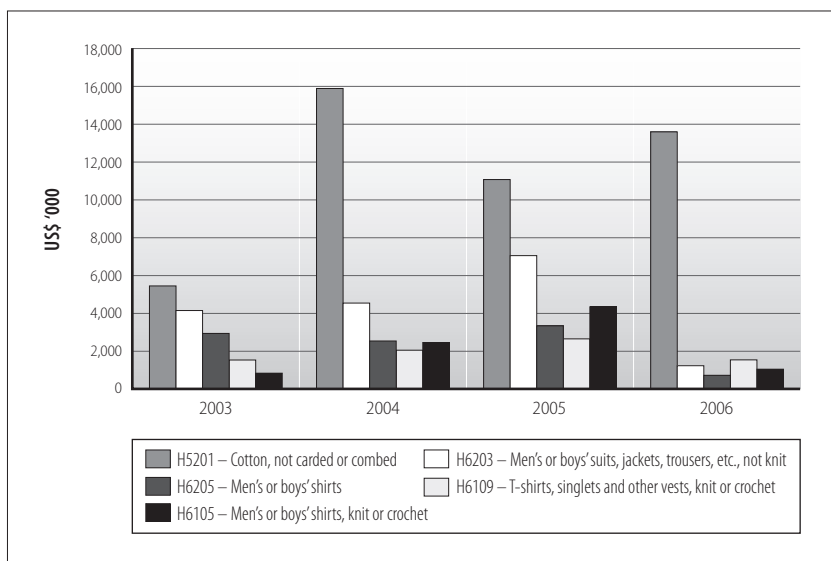
The lack of internal markets is not the only problem that Malawi's textile industry faces. Chairperson of the Garments and Textile Manufacturers Association of Malawi, Kantilal Desai, who owns a textile company, Knitwear Industries, says that AGOA has favourable conditions which offer tangible incentives for African countries to continue their efforts to open their economies and markets, but cites lack of machinery and trained personnel to handle current export markets as the key challenge.

The collapse of the textile industry has also affected cotton production. Currently, cotton is mostly grown by smallholder farmers. Two districts of Chikwawa and Nsanje, located in Malawi's Lower Shire valley, produce about 31 144 tons of cotton out of a national total of close to 50 000 tons. However, local cotton production is not enough to meet the ginning capacity available in the country. The three ginning companies, Great Lakes Cotton Company, Clark Cotton and Iponga, use only 30 per cent of their processing capacity. Many farmers in Malawi are becoming reluctant to grow cotton because of profitability considerations, as cotton prices are low. Cotton is Malawi's third biggest export product, with tobacco being number one. Maliko Sagawa, a farmer from one of the country's cotton-growing districts in Chikwawa, says that cotton buyers appear to have formed a cartel to fix prices. 'We do not make much profit from our sales. Actually, I am thinking of abandoning cotton farming and maybe growing some other crop that will be more viable,' says Sagawa.

To address these pricing issues, in 2007 the Malawi government ruled that the minimum price of cotton for 2008 was not less than three cents per kilogramme. In 2006, the price was two cents per kilogramme, but the cotton buyers protested and boycotted the sale. The buyers argued that they have to pay taxes and so need to pay less than the government was prescribing. Government insisted on its position and hence buyers were left with no choice but to buy the cotton at the recommended price.

Source: Adapted from Pilirani Semu-Banda's article on the IPS website

Figure 6.4: *Cotton and textile export into SADC*



Source: SADC Trade Data<sup>13</sup>

## Challenges for other small-scale agricultural producers: the case of tobacco and sugar

Tobacco plays a significant role in national economic growth, both for rural households and the state. In 2003, the World Bank reported that tobacco made up 60 per cent of Malawi's exports, 13 per cent of its GDP, and 23 per cent of its total tax base. Among the top ten markets for tobacco are Germany (19%), the US (11,4%), Zimbabwe (6,5%), Russia (5,9%), Belgium (5,6%), South Africa (5%), Egypt (4,6%), Netherlands (4,3%), Poland (3,5%) and Turkey (3,2%).<sup>14</sup>

The tobacco subsector has undergone substantial reform following the IMF/World Bank initiated liberalisation programme. Since 2003, prices at the Malawi Tobacco Auction Floors start low, often forcing frequent buyer–seller stand-offs until some agreement is reached. In March 2006, the situation led Malawi's President, Dr Bingu Wa Mutharika, to threaten to expel the largest tobacco buyers if they continued to offer prices lower than the government's minimum price of US\$1,10.<sup>15</sup> The President said in the local press that poor smallholder farmers in Malawi have remained poor because they are cheated by international cartel buyers that collude to buy tobacco at exploitative prices and sell the same tobacco for a high profit. Farmers sometimes avoid selling at the auctions and sell to middlemen and other traders who exploit farmers' lack of knowledge about prices in the chain.

### **Box 6.3:** *The core business of Illovo Sugar is sugar*

Different challenges emerge with specific reference to smallholder farmers and workers in the sugar sector. Since 2000, there has been some expansion in the sugar commercial sector that saw some €3,5 million being invested for the Kasinthula Cane Growers (KCG) Ltd, a smallholder development project.<sup>16</sup> In one particular area, Nchalo Sugar Estates, the investment has resulted in changing modes of production – due to the use of tractors and chemicals (herbicides) – and culture. This new Kasinthula smallholder scheme contributes to the estate production. Nchalo estates maintained the ISO 9001/2000 Quality Management System accreditation, and smallholder farmers had to acclimatise themselves to these standards. The industry provides direct employment for some 13 000 people (including indirect employment). Thousands of other people are involved in the transport and domestic distribution of sugar. KCG operations involve 270 households. The 17,5 per cent

surtax on sugar is an important source of government revenue. In 2005 alone, the net surtax collected on behalf of the government was MK303 million, out of the total MK1,25 billion in taxes. Thus, the sugar industry operations are a prominent feature of sub-regional economies. The majority of downstream products are sold internationally into high-value, niche markets. Illovo has significant access to preferential markets in Europe, US, SACU and SADC Sugar Protocol on Trade, and COMESA.

The costs to move the sugar overland and through regional ports are substantially higher than the international shipping and handling costs. The regional market sales (i.e. to Kenya) provide a useful diversification of markets, yet generally result in ex-factory revenues below those associated with other market outlets (i.e. the domestic market or extra-regional sales under preferential arrangements like SACU), in large part due to the very high costs of moving sugar within the region. Domestic markets provide sugar producers with relatively high ex-factory prices because of the relatively small distribution costs involved. In 2001–2002, the average proceeds on domestic sales were US\$407 per ton, compared with average export revenues (ex-factory) of US\$343 per ton.

**Table 6.14:** Malawi sugar production and exports, 2000–2006

|                                       | 2000 | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  |
|---------------------------------------|------|-------|-------|-------|-------|-------|-------|
| <b>Production<br/>(tonnes '000)</b>   | 233  | 165   | 260,7 | 260   | 222   | 271,5 | 273,1 |
| <b>SADC exports<br/>(tonnes '000)</b> | 11,7 | 11,1  | 6,0   | 22,7  | 12,8  | 7,4   | 15,9  |
| <b>RoW exports<br/>(tonnes '000)</b>  | 70,6 | 178,9 | 80,6  | 245,9 | 199,7 | 96,4  | 49,2  |

Source: NSO, 2007 & SADC Trade Data, 2007

Conversely, poor people are not importers but can be significantly affected by import liberalisation. Imports, especially of finished goods despite higher tariff rates (e.g. sugar faces 25%), still fetch higher prices than expected largely due to intermediary activities. This high tariff rate sustains high domestic sugar prices (relative to SACU consumers). Respondents to our survey refer to access to wider markets, better import prices and wider access to supply as the benefits that SADC FTAs can bring, but they do not reduce import costs (logistics, etc). The overall effect is that import prices are not any cheaper (71 per cent of respondents say so, and 14 per cent are indifferent as to whether the import prices are any cheaper or higher). Furthermore, 56 per cent of the respondents think duty is not a key hurdle to imports; rather it is the paperwork involved and transport costs (88 per cent of the respondents think so).



In conclusion, the role and impact of intermediaries have been changing with the liberalisation of markets and the evolution of regional supply chains. For commodities like tobacco, cotton and sugar, the prices are better on behalf of producers because of government regulations. Similarly, the prices that consumers pay for fertiliser and maize are affected by the government support. The poverty reduction impact is rather mixed, depending on how the producer and consumer benefits are distributed. There are short- and long-term impacts as trade openness (through the FTA) may raise inequality and stimulate growth at the same time. This may mean that trade liberalisation is a win–lose policy, if not carefully managed.

### **SADC FTAs and labour markets: factor prices, income and employment linkages**

In theory, greater contact with the regional market may in turn provide access to investment and technology. The poor may benefit through employment and higher wages if demand increases for unskilled or semi-skilled labour. Various economic agents refer to employment creation as a mechanism for contributing to national poverty reduction (Table 6.15). This study also revealed that trading under SADC FTAs has helped create more jobs, but not necessarily labour-intensive jobs (Table 6.16 indicates that 50% thinks capital-intensive jobs are being created, and another 50% thinks both types are being created). This view is further validated by the feeling that new capital equipment is brought into the country (67%). Output and exports are perceived to have increased by 60 and 71 per cent respectively, indicating potentially higher incomes for skilled labour. Thus, trade is affecting the labour market and may influence relative incomes through this channel.

**Table 6.15:** *SADC FTA and labour markets*

| Mode of organisation's involvement in poverty reduction | Respondents | %  |
|---------------------------------------------------------|-------------|----|
| Employment                                              | 19          | 49 |
| Loans                                                   | 3           | 8  |
| Tax relief                                              | 1           | 3  |
| Provision of tertiary services                          | 13          | 33 |
| Corporate social responsibility programmes              | 3           | 8  |
| Note: some respondents indicated more than one mode     | 39          |    |

The effect of trade reform on labour markets in Malawi may also be more complex than suggested in traditional trade theory because of the particularities of the labour markets. Malawi has a large pool of informal labour, and the poor often form part of that informal labour force. If trade increases the demand for labour in the formal economy, this can lead to a reduction in poverty in two ways:

- First, if the wage in the formal economy is higher than in the informal economy, an increase in formal employment reduces the number of people in poverty. Surely this may be the case since the government minimum wage legislation can easily be enforced. However, it is difficult to ascertain the numbers moving between the informal and the formal economy.
- The second scenario assumes that the wage in the formal economy is equal to the subsistence wage or the wage in the informal economy. Subsequently, a shift in labour demand reduces poverty only if the implicit wage in the subsistence or informal economy increases following trade liberalisation, either due to a reduction in labour supply in the subsistence sector or a reduction in overcrowding. Again, this may be hard to measure. However, if the informal economy comprises large-group intermediaries, given the higher import prices their incomes are bound to increase and hence poverty levels reduced.

Neither of the two ways fits the labour structure in Malawi easily; up to 86 per cent<sup>17</sup> is rural and agricultural. A very small proportion is skilled and any increase in trade has to have a corresponding increase in the importation of skilled workers – unfortunately from elsewhere. If any, then the rural unskilled workers would only move to the urban areas to form yet another informal economy. Government minimum wage legislation may be even harder to enforce than price regulation on agricultural produce.

**Table 6.16:** *Major effects of trading with SADC countries*

| Effect of trading with SADC on: | Respondents | %   |
|---------------------------------|-------------|-----|
| <b>Number of jobs created</b>   |             |     |
| <b>No influence</b>             | 0           | 0   |
| <b>More jobs</b>                | 31          | 100 |
|                                 | <b>31</b>   |     |

**Table 6.16** (*cont.*)

| Type of jobs                                                                                                 | Respondents | %  |
|--------------------------------------------------------------------------------------------------------------|-------------|----|
| Labour-intensive                                                                                             | 0           | 0  |
| Capital-intensive                                                                                            | 15          | 50 |
| Both                                                                                                         | 15          | 50 |
|                                                                                                              | <b>30</b>   |    |
| <b>New capital</b>                                                                                           |             |    |
| None                                                                                                         | 0           | 0  |
| New finance                                                                                                  | 0           | 0  |
| New equipment                                                                                                | 20          | 67 |
| New capital but not aware which kind                                                                         | 10          | 33 |
|                                                                                                              | <b>30</b>   |    |
| <b>Output</b>                                                                                                |             |    |
| No increase                                                                                                  | 3           | 10 |
| Increased output                                                                                             | 18          | 60 |
| % extent of increase                                                                                         | 9           | 30 |
|                                                                                                              | <b>30</b>   |    |
| <b>Exports</b>                                                                                               |             |    |
| No increase                                                                                                  | 4           | 14 |
| Increased exports                                                                                            | 20          | 71 |
| Fluctuating                                                                                                  | 4           | 14 |
|                                                                                                              | <b>28</b>   |    |
| <b>Major exports</b>                                                                                         |             |    |
| Tea sacks, wheat, corrugated cartons, bran, flour, peanut butter, textiles, yarn, sugar, tobacco, dhal, etc. |             |    |

## The SADC FTA and household consumption, prices and production

Food represents a particularly large share of expenditure for poor households. In Malawi, a large number of poor households live in rural areas and are agricultural producers at subsistence level. Changes in agricultural prices may, therefore, affect poor households differently, depending on whether they are net consumers or net producers of agricultural products. The impact of agricultural trade liberalisation will also depend on the ex-

tent to which the prices of inputs are affected, with reductions in input prices being more likely than reductions in output prices to affect poor households in rural and urban areas equally. Herein is the foundation of the success of the fertiliser subsidy policy of the Malawi government, where the main thrust of the policy is the ‘reductions in input prices (fertiliser) [rather] than reductions in output prices (maize) to affect poor households in rural and urban areas equally’. Trade liberalisation may force down the prices of basic goods, for example food and second-hand clothing, as a result of the competitive pressure of cheaper imports. Thus, liberalisation brings benefits to given consumer groups (especially poor ones), who may also enjoy better choice and quality.

These price gains are not guaranteed. Without effective regulation by states, economic actors – domestic and foreign – may abuse their market power or employ anti-competitive practices to prevent price gains being passed on to producers and consumers, particularly the weaker or more vulnerable. Malawi has the Competition and Fair Trading Act (1998), albeit the enforceability of it depends on the vigilance of the consumer association of Malawi and the consumers themselves. The State President has intervened in the prices of tobacco and cotton.

**Box 6.4:** *The food market in Malawi*

There are many players in the food market, the major players being the government, parastatals (ADMARC) and numerous large and small private firms (75 per cent of respondents think there are many food suppliers). In the study, 71 per cent of respondents felt that there is market competition in Malawi. To some extent, the private firms (including the small-scale producers, farmer associations and intermediaries) have a bigger influence on the pricing and availability of food (especially maize) on the market. This food market is nearly 100 per cent liberalised and is dominated by domestic suppliers.

On the other hand, removing trade barriers may occasion a decline in the production, market share and profits of national companies as they struggle to compete with the rising imports of goods, supposedly produced more cheaply by foreign competitors now having easier access to the market. Some enterprises may adapt by improving performance, but the more uncompetitive may have to close, causing job losses, unemploy-

ment and dramatic social costs for the poor groups directly involved. Malawi's government has effectively employed a tariff regime that addresses these concerns. As such, this theory is not entirely plausible in Malawi. On the contrary, in the retail sector more jobs have been created (and hopefully, improved technology has been introduced and skills transfer is taking place), with the old players like the People Trading Centre Ltd still surviving despite entry into the domestic market of South African retailers Shoprite and Game Stores. The story may differ somewhat as regards small-scale producers, mostly regarding agricultural products like poultry and poultry products.

## Conclusion

In this short country review, combined with the interviews on trade and poverty, it is clear that the linkages between trade and poverty are multiple and complex. It is hard to either predict the effects of the SADC FTA on poverty, or to attribute some advances in achieving economic indicators.

There is no doubt, though, that the trade policy with respect to SADC suggests that trade liberalisation has made some contribution to reducing poverty rates. There is ample opportunity for policymakers to exploit further the positive linkages. As regards the supply response to SADC FTAs, some of the poor may actually become worse off even when poverty rates decline. This should be a matter of concern to policy makers in Malawi and the region. Careful state intervention, such as the initiatives the Malawi government has made in the tobacco, maize (food) and cotton sectors, would ensure that the benefits of FTAs trickle down to the poor – the immediate concern should be the sugar smallholder growers as the EU potential is about to be realised.

However, for Malawi, it is expected that sectors intensively using low-skilled labour would export more, and that this would lead to gains for low-skilled workers. This seems not to be the case, however, since there are more capital investments (not as labour intensive) being made in an effort to meet international standards. Exports may indeed be on the increase (according to 71 per cent of the respondents) and output increase is estimated at 60 per cent plus. The returns therefore accrue more to owners of capital and skilled workers – hence not contributing to poverty reduction. The extent of poverty reduction of approximately two per cent

(1997–2008 estimated 54,1 per cent and the next estimate in 2004–2005 is 52,4 per cent) does not correspond very well with the sustained growth rates of above five per cent. Thus, SADC FTAs and indeed the wider economic and social environment together may not be delivering on poverty reduction at a fast enough pace.

This country study presents a much more complex picture of the changes that trade liberalisation is likely to trigger and of the resulting consequences. It seems that the effects on the poor in Malawi may be country and situation specific, that is, they require a strong social welfare environment to ensure that the majority of the poor benefit.

In general, however, empirical evidence continues to support the idea that SADC trade is good for poverty reduction, although trade is likely to affect individual households differently. The strength of the poverty-reducing effect of trade would, to a large extent, depend on the policies accompanying the SADC trade liberalisation process. Malawi government trade and development policies seem to be on the right course, given the circumstances.

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## Mozambique Case Study

Gilberto Biacuana

### The poverty situation and poverty reduction strategies

MOZAMBIQUE'S PERVERSIVE POVERTY IS A RESULT OF A COMPLEX HISTORICAL legacy that includes weak human capital development over the colonial period, even by African standards, failed socialist policies after independence in 1975, and a civil war that lasted 16 years.<sup>1</sup> The poverty situation in Mozambique is further worsened by natural disasters, such as floods and droughts, which affect the country's agricultural output almost every year. Poverty seems to be higher in rural areas than in urban areas.

Nonetheless, from 1997 to 2003 poverty levels decreased more in rural areas than in urban areas. Mozambique has had an impressive record in poverty reduction, being second only to Vietnam in its achievements. Poverty reduction has been driven by impressive economic growth, prudent macroeconomic policies and generally good governance and political commitment to reduce poverty. Moreover, Mozambique has generally been committed to implementing its regional integration commitments, especially with regards to SADC FTAs. However, as with most countries in the region, supply-side constraints and behind-the-border issues have not allowed the country to exploit its comparative advantage in agriculture. Agriculture plays a major role in Mozambique's economy in terms of employment and contribution to GDP.

**Table 6.17:** *Poverty incidence in Mozambique, 1997–2003*

| Poverty incidence | 1997 | 2003 | Decrease |
|-------------------|------|------|----------|
| National          | 69,4 | 54,1 | 15,30    |
| Urban             | 71,3 | 55,3 | 16,00    |
| Rural             | 62,0 | 51,5 | 10,50    |

Source: 1996/7 and 2002/03 Household Surveys

Poverty levels in urban areas, especially Maputo, were affected by the appreciation of the South African rand against the metical, which made



food imports more expensive for the urban poor. Poverty levels tend to be generally higher in female-headed households and in households with four or more children.<sup>2</sup>

Mozambique achieved impressive results under the First Poverty Reduction Strategy (PARPA I), sustaining an average economic growth of eight per cent per year over four years. Growth was supported by two sectors, agriculture and industry. This was also accompanied by a rapid fall in poverty: the poverty head count index fell from 69 per cent in 1997 to 54 per cent in 2003. The main contributing factor in the reduction of poverty has been the recovery of agricultural production (the main source of livelihood for the majority of the poor), greater non-farming activities in rural areas, such as informal trading; and a rise in employment income.

However, it should be noted that this growth represented a 'bounce back' to pre-war agricultural productive levels without any substantial growth in productivity, which remains way below regional average. On the other hand, growth in industrial production has been the major driving force behind the country's growing exports. Growth in exports has been influenced by mega projects such the Mozal aluminium smelter, the Cahora Bassa hydroelectric facility, and the Sasol natural gas pipeline to South Africa.<sup>3</sup> Table 6.18 shows the trend of Mozambique's major exports from 2000 to 2007. In 2007, aluminium exports accounted for about 61,4 per cent of total exports.

**Table 6.18:** *Major exports, 2000–2007 (US\$ million)*

| Product          | 2000  | 2001   | 2002   | 2003   | 2004   | 2005     | 2006     | 2007     | 2007 share |
|------------------|-------|--------|--------|--------|--------|----------|----------|----------|------------|
| Aluminium ingots | 60,16 | 383,10 | 361,10 | 567,60 | 915,01 | 1 020,55 | 1 401,32 | 1 480,22 | 61,4%      |
| Other            | 81,39 | 120,19 | 172,44 | 204,89 | 123,81 | 196,83   | 237,15   | 245,02   | 10,2%      |
| Electricity      | 66,98 | 57,35  | 107,38 | 113,27 | 102,25 | 141,80   | 177,82   | 239,68   | 9,9%       |
| Natural gas      |       |        |        |        | 31,27  | 100,16   | 109,61   | 120,65   | 5,0%       |
| Shrimp           | 91,46 | 92,45  | 114,24 | 75,82  | 91,75  | 70,89    | 86,68    | 62,13    | 2,6%       |
| Sugar            |       |        |        |        | 25,80  | 37,70    | 71,35    | 61,76    | 2,6%       |
| Tobacco          |       |        |        |        | 40,94  | 43,25    | 110,34   | 51,78    | 2,1%       |
| Cotton           | 25,50 | 18,27  | 15,93  | 32,44  | 35,79  | 56,27    | 45,69    | 42,00    | 1,7%       |
| Wood             | 14,60 | 12,56  | 17,98  | 20,43  | 29,97  | 32,35    | 35,59    | 31,90    | 1,3%       |

Table 6.18 (cont.)

| Product                    | 2000  | 2001   | 2002   | 2003    | 2004     | 2005     | 2006     | 2007     | 2007 share |
|----------------------------|-------|--------|--------|---------|----------|----------|----------|----------|------------|
| Fuel re-exports            |       |        |        |         | 62,80    | 11,83    | 31,78    | 28,71    | 1,2%       |
| Bunkers                    |       |        |        | 8,05    | 8,03     | 5,88     | 28,74    | 20,95    | 0,9%       |
| Cashews, processed         | 11,95 | 10,90  | 16,20  | 7,44    | 21,21    | 17,59    | 23,68    | 10,75    | 0,4%       |
| Cashews, unprocessed       | 8,40  | 2,10   | 1,11   | 1,50    | 8,02     | 5,51     | 13,01    | 8,86     | 0,4%       |
| Maize                      |       |        |        |         | 3,21     | 3,19     | 5,02     | 5,08     | 0,2%       |
| Lobsters                   | 0,27  | 0,31   | 0,86   | 0,46    | 0,76     | 0,84     | 1,17     | 1,22     | 0,1%       |
| Gold, non-monetary         |       |        |        |         | 1,34     | 0,46     | 1,97     | 1,10     | 0,0%       |
| Tyres                      | 0,30  | 4,58   | 1,50   | 11,38   | 1,65     | 0,14     | 0,18     | 0,28     | 0,0%       |
| Fruit                      | 0,82  | 0,25   | 0,11   | 0,59    | 0,16     | 0,02     | 0,04     | 0,02     | 0,0%       |
| Copra                      | 2,14  | 1,07   | 0,97   | 0,05    | 95,00    |          |          |          | 0,0%       |
| Total agricultural exports | 155,1 | 137,91 | 167,39 | 138,73  | 257,69   | 267,60   | 392,57   | 275,50   | 11,4%      |
| Total exports              | 363,9 | 703,13 | 809,81 | 1 043,9 | 1 503,86 | 1 745,26 | 2 381,13 | 2 412,12 | 100%       |
| Agriculture/ total exports | 42,6% | 19,6%  | 20,7%  | 13,3%   | 17,1%    | 15,3%    | 16,5%    | 11,4%    |            |

Source: USAID, 2008

Although the poverty situation has been improving, conditions are still bad in rural areas, where about 70 per cent of the country's population resides. About half of the rural inhabitants are considered absolutely poor, meaning that they have difficulty in acquiring basic necessities, such as food for meeting daily caloric requirements.<sup>4</sup> Moreover, poverty reduction efforts have had uneven results across regions, and urban poverty in Maputo seems to be increasing. This has been influenced by rising unemployment and the appreciation of the South African rand vis-à-vis the metical, which has made food imports expensive, especially for the urban poor.

The Second Poverty Reduction Strategy (PARPA II, 2005–2009) was adopted in 2004, and its objective is to reduce the incidence of poverty from 54 per cent to 45 per cent by 2009. The strategy is operationalised through the Economic and Social Plan and the State Budget. The key areas for action have been education, health, infrastructure, agriculture,

rural development, good governance, legality and justice, financial and international trade policies.<sup>5</sup>

Mozambique is on track to meet the MDGs on poverty incidence, infant and maternal mortality, and access to safe drinking water, particularly in urban areas (Table 6.19). However, other areas, such as enrolment in upper primary school and beyond, particularly in rural areas, gender equality and HIV/AIDS call for more efficient service delivery and effective use of additional donor support.

**Table 6.19:** *Mozambique's MDGs and targets, 1990–2015*

| Goal                                         | Target (2015)                                                | State supportive environment | Attainability     |
|----------------------------------------------|--------------------------------------------------------------|------------------------------|-------------------|
| Eradicate extreme poverty and hunger         | by 50%                                                       | Strong                       | Potentially       |
| Achieve universal primary education          | 100%                                                         | Fair                         | Unlikely          |
| Promote gender equality and empower women    | 1                                                            | Weak but improving           | Unlikely          |
| Reduce child mortality                       | Two-thirds to 108/1 000 births                               | Fair                         | Potentially       |
| Improve maternal health                      | Reduce by three-quarters the maternal mortality ratio to 250 | Fair                         | Potentially       |
| Combat HIV/AIDS, malaria and other diseases  | n/a                                                          | Fair                         | Unlikely          |
| Ensure environmental sustainability          | Various                                                      | Weak but improving           | Unlikely          |
| Develop a global partnership for development | Various                                                      | Fair                         | Insufficient data |

Source: UNDP, 2005

## Challenges to poverty reduction

Mozambique faces a number of challenges in meeting its poverty reduction targets. The UNDP<sup>6</sup> notes in particular the following challenges:

- **Sustainability and pattern of growth.** The impressive economic growth that has been experienced in the last few years has relied heavily on donor assistance. Further, although poverty levels have been de-

creasing, growth has generally been inequitable, benefitting the better-off while the poor have become poorer, thus increasing inequality.

- **Rapid growth of urban population.** In 2015 there will be almost as many people living in urban areas as in rural areas. The population pressure on urban and peri-urban areas is a challenge that needs to be urgently addressed. Limited employment opportunities and limited demand for consumer goods in rural areas is attracting people to urban areas, especially the capital, Maputo. However, urban centres do not have the ability to create employment opportunities for unskilled labour, and most of the people end up in the informal sector.
- **HIV/AIDS pandemic.** The impact of HIV/AIDS on the economy is huge, particularly affecting poor households. As a result of HIV/AIDS, workers become less productive, vulnerability increases, there is a greater demand for health care, and more teachers and nurses need to be trained to replace those dying, all of which places a considerable financial burden on the state.
- **Vulnerability to external risks (including to natural disasters).** Although there has been some progress in the standard of living of the population, many people remain highly vulnerable to factors such as food insecurity, diseases, floods and droughts.

## An overview of Mozambique's trading arrangements

Trade is very important to Mozambique, especially with regard to economic growth and its role in poverty alleviation. Trade creates employment opportunities, thus raising the incomes of the rural poor. This is particularly true for the rural poor, who rely on agricultural production for their incomes. External demand provides an incentive for farmers to increase production. To meet its poverty reduction targets, Mozambique has to grow quickly and sustain its growth over a number of years. Given its small domestic market and low purchasing power, the only way that it can sustain its growth is through an export-led growth strategy that can increase the income of the poor.

Like any other LDC, Mozambique's economy relies heavily on agriculture for employment and exports. The agricultural sector employs about 80 per cent of Mozambique's labour force and accounts for about 20 per cent of GDP. In 2007, the sector accounted for 11,4 per cent of total

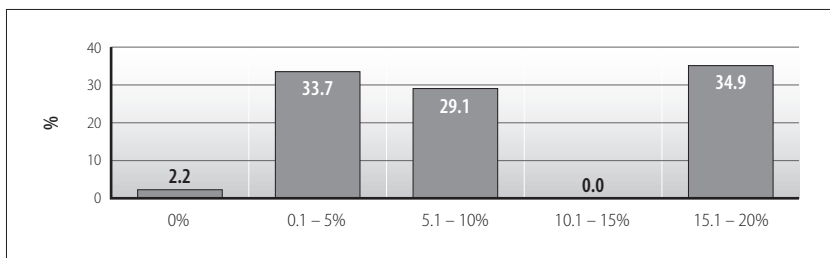
exports<sup>7</sup> and comprised mainly sugar, cashew nuts and tobacco. Moreover, agriculture has great linkages with the rest of the economy. Like any other LDC, any poverty reduction strategy for Mozambique should, therefore, be centred on agriculture.

Mozambique is signatory to various trade agreements. It is a member of the WTO, and the country's position under the WTO is for the liberalisation of the agriculture sector by developed nations and the complete phasing out of subsidies. Many agricultural products of interest to Mozambique, such as cotton, sugar and maize, still face significant barriers in developed countries. Such barriers include quotas, high out-of-quota tariffs, export subsidies, and domestic support programmes, all of which undermine fair competition. Oversupply from developed countries depresses the world prices of most agricultural products, thus making agricultural production by developing country farmers unattractive, despite the evident comparative advantage that developing countries have in agriculture. In addition, meeting the sanitary and phytosanitary (SPS) requirements of developed countries is difficult.

Mozambique is also a founding member of SADC, and commenced the implementation of the SADC TP in October 2001. The country has bilateral trade agreements with South Africa, Zimbabwe and Malawi. The bilateral agreement with Malawi covers trade in all goods except soft drinks, tobacco, sugar, chickens and eggs, office equipment, petroleum products, weapons, ammunition and explosives, which are considered sensitive products.

Mozambique initialled the interim EPA, which replaces the Cotonou Agreement, with the EU in November 2007. Under the EPA with the EU, tariff elimination covers 80,5 per cent of trade at entry into force of the agreement, while some 100 additional tariff lines will be liberalised by 2018.<sup>8</sup>

Mozambique has for some time now been evaluating the implications of joining SACU. However, studies evaluating the impact of joining SACU revealed that Mozambique would be worse off if it were to adopt SACU's common external tariff (CET). As illustrated in Figure 6.5, Mozambique has substantially liberalised its tariffs, and by joining SACU it would have to raise its tariffs again. Mozambique has only five tariff bands. Nonetheless, accession to SACU would eliminate the need for Mozambique's exports to adhere to SADC's stringent rules of origin, particularly when exporting to South Africa or SACU. However, the adoption of SACU's CET would raise Mozambique's tariffs on certain products, such as manu-

**Figure 6.5:** *Distribution of Mozambique's Most Favoured Nation (MFN) tariffs, 2008*

Source: Author's calculations from MacMap data

factured goods. Moreover, Mozambique would not be able to use trade policy to achieve its developmental and social objectives.

Mozambique has significant but underutilised market access that offers preferential preference to its products. This market access is marginally used because of internal supply-side constraints, such as poor roads and inadequate marketing infrastructure. The country is also constrained by lack of production capacity, competitiveness and complex rules of origin in export markets. Preferential access schemes include the GSP in the US and the EU; these include the US AGOA initiative and EBA by the EU. EBA provides duty- and quota-free access to the EU market for all products from LDCs excluding arms and ammunitions, and bananas, sugar and rice, which are considered sensitive products. AGOA covers about 1 800 product lines, including most agricultural products, textiles and apparel. This would benefit Mozambique's producers if it were not for production capacity constraints.

Mozambique also benefits from preferential tariff treatment by China, Australia, Canada, Japan and New Zealand under the GPS. The Nordic<sup>9</sup>/SADC accord also affords Mozambique's exports highly favourable terms. Mozambique also benefits from the duty-free tariff preference scheme (DFTPS) for 50 LDCs announced during the India-Africa summit held in New Delhi in April 2008.

## **SADC FTA and Mozambique demand and supply response**

Mozambique is the only country in SADC that has no dual membership of regional organisations. It is, therefore, fully committed to the SADC regional integration, especially in trade. It was one of the first countries to

submit its tariff offers, which were gazetted, together with the regulations on rules of origin and certification, in 2001.

Mozambique commenced its implementation of the SADC TP in October 2001.<sup>10</sup> The SADC FTA has been in force since 1 January 2009, and in principle 85 per cent of goods produced in SADC member states enter Mozambique free of customs duties. However, higher tariffs usually apply for goods from South Africa. Since Mozambique is an LDC, it was allowed to back-load its tariff reductions to beyond the eight-year threshold, but not to exceed 12 years. According to government, the objective is to further liberalise to about 95 per cent of trade before the end of 2009.

### Demand response

Imports from SADC countries have increased with the implementation of the SADC FTA. For example, Mozambique's imports from SADC increased by 85,2 per cent between 2003 and 2006 (see Table 6.20). However, it should be noted that Mozambique's imports are predominantly from South Africa. As illustrated in Table 6.20, the major imports from the region for firms have been machinery, mineral products and transport equipment, while for consumers, imports from the region consisting of consumer goods, clothing and white goods have increased. Consumption of food products from the region has increased, and imports from the region have generally become cheaper. However, about 15 per cent of imports from SADC still face duties at the borders. In particular, it is important to note that products such as sugar and cotton, which could further reduce poverty levels, are still protected by high tariffs in some tariff lines of up to 20 per cent.

**Table 6.20:** *Mozambique's top 10 import product group, 2003–2006, US\$ million*

| Product group               | 2003    | 2004    | 2005    | 2006    | 2006 share (%) |
|-----------------------------|---------|---------|---------|---------|----------------|
| Machinery                   | 117 243 | 136 599 | 161 626 | 235 562 | 20,2           |
| Transport equipment         | 81 395  | 112 421 | 174 137 | 169 150 | 14,5           |
| Mineral products            | 108 921 | 38 733  | 49 861  | 157 239 | 13,5           |
| Base metals                 | 54 452  | 77 357  | 82 925  | 114 072 | 9,8            |
| Chemical products           | 79 701  | 75 112  | 67 001  | 82 310  | 7,0            |
| Food, beverages and tobacco | 28 494  | 44 639  | 41 576  | 50 149  | 4,3            |

**Table 6.20** (*cont.*)

| Product group                        | 2003           | 2004           | 2005           | 2006           | 2006 share (%) |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Vegetable products</b>            | 23 436         | 25 743         | 25 982         | 44 114         | 3,8            |
| <b>Live animals, animal products</b> | 24 255         | 37 284         | 36 093         | 43 686         | 3,7            |
| <b>Paper products</b>                | 35 906         | 47 741         | 53 698         | 39 770         | 3,4            |
| <b>Plastic products</b>              | 21 706         | 36 144         | 30 676         | 36 887         | 3,2            |
| <b>Total</b>                         | <b>577 512</b> | <b>633 777</b> | <b>725 580</b> | <b>974 945</b> | <b>83,3</b>    |

Source: Author's calculations from TradeMap data

## Supply response

It is difficult to quantify the employment that was created by the SADC FTA. Anecdotal evidence suggests that employment has been created in the agriculture and tourism sectors. Most of the jobs created have been labour intensive given the nature of these two sectors. New capital investments have been through the purchase of agricultural machinery and investments in new tourism facilities such as hotels. Supply of horticultural products has increased, most of which have been exported to South Africa. The easing of restrictions on maize exports by the informal sector to Malawi has had a positive impact on income and poverty levels in central and northern Mozambique. Major agricultural exports have been maize, bananas and other horticultural products. Total exports between 2003 and 2006 increased by 77,7 per cent. As illustrated in Table 6.21, Mozambique exports to SADC have been dominated by mineral products, which accounted for about 64 per cent of total exports in 2006. It should be noted that Mozambique exports electricity to some SADC member states and in recent years it has exported natural gas to South Africa.

**Table 6.21:** *Mozambique's top 10 export product group: 2003–2006, US\$ million*

| Product group              | 2003    | 2004    | 2005    | 2006    | 2006 share (%) |
|----------------------------|---------|---------|---------|---------|----------------|
| <b>Mineral products</b>    | 120 399 | 170 305 | 116 607 | 291 122 | 63,9           |
| <b>Transport equipment</b> | 10 532  | 8 022   | 4 886   | 30 964  | 6,8            |
| <b>Machinery</b>           | 25 280  | 23 625  | 15 674  | 26 390  | 5,8            |



**Table 6.21** (*cont.*)

| Product group                   | 2003           | 2004           | 2005           | 2006           | 2006 share (%) |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Live animals, animal products   | 27 182         | 14 752         | 16 629         | 19 668         | 4,3            |
| Food, beverages & tobacco       | 25 038         | 46 813         | 29 605         | 19 146         | 4,2            |
| Vegetable products              | 15 303         | 10 848         | 27 740         | 14 859         | 3,3            |
| Paper products                  | 1 683          | 4 350          | 15 428         | 13 516         | 3,0            |
| Textiles & clothing             | 10 903         | 4 050          | 4 793          | 10 582         | 2,3            |
| Wood products                   | 2 720          | 8 381          | 1 740          | 5 620          | 1,2            |
| Animal or vegetable fats & oils | 2 776          | 6 414          | 2 607          | 3 661          | 0,8            |
| <b>Total</b>                    | <b>243 819</b> | <b>299 564</b> | <b>237 714</b> | <b>437 534</b> | <b>95,6</b>    |

Source: Author's calculations from TradeMap data

Tourist arrivals, especially from South Africa, have been increasing, but these have partly been influenced by the bilateral agreement on the scrapping of visa requirements between the two countries.

## Investment response, market structures and competitiveness

South Africa is the largest investor in Mozambique, with investments spanning a wide range of sectors. South Africa and Mozambique have cooperated in bilateral infrastructural projects, such as the Maputo Development Corridor (MDC) linking South Africa's industrial heartland in Gauteng province and the Maputo port. The MDC comprised the upgrading of the road, rail and port infrastructure, and the commitment to the free movement of people between the two countries.

South Africa is also Mozambique's major trade partner in the SADC region, and both countries maintain the good political relations that started in the liberation years. Mozambique's exports to South Africa are increasingly in the agricultural sector and are playing a major role in poverty reduction in Mozambique. This is also true for the South Africa's investments in Mozambique's sugar industry, which have created employment for the rural poor. In 2005, both countries signed a bilateral agreement for free movement of persons by scrapping visa requirements for citizens of both countries.

The impact of the SADC FTA tariff liberalisation has been on FDI response, especially in tourism and agriculture. Liberalisation has had a

positive impact on horticultural (bananas, citrus, mangoes, etc) investments in southern Mozambique, and the tourism sector in general. Investments in agriculture have been mainly from South Africa and, to a lesser extent, from Zimbabwe. FDI in agriculture has been partly influenced by uncertainties with regards to land reform in South Africa and the political instability in Zimbabwe. Nonetheless, FDI from Zimbabwe has had mixed success but on the whole it has contributed positively to the economy of Manica Province, especially with regard to job creation.

The relatively lower land prices<sup>11</sup> in Mozambique compared to other SADC member states have also influenced agricultural investments. Tariff liberalisation under the SADC FTA has made it cheaper for investors in agriculture and tourism to import inputs such as fertilisers, seeds, agricultural machinery, beds, linen, television sets, and so forth, to start their operations.

These investments substantially decreased poverty levels in Mozambique through their contribution to employment creation, especially for the unskilled labour force, which forms the majority of the overall labour force. In the sugar cane sector, for example, about 27 000 jobs were created; however, it should be noted that investments in the sugar industry were not influenced by the SADC FTA. In tourism, although difficult to quantify, the number of jobs created has been substantial; these also include indirect jobs through other tourism-supporting activities and seasonal jobs that are created in peak tourism seasons, such as in December every year. In recent years, tourism became important such that local universities introduced new tourism courses in response to the requirements of a modern tourism sector. Poverty levels have thus decreased from 69,4 per cent in 2003 to about 54,1 per cent in 2008; poverty levels are further expected to decrease to about 45 per cent in 2009.

Of particular note is that Mozambique's liberalisation under the SADC FTA has not been able to attract investments in labour-intensive manufacturing. The general view is that the unfavourable business environment in Mozambique has constrained investments in labour-intensive manufacturing, such as textiles and clothing. The unfavourable business environment consists mainly of behind-the-border issues, such as delays at the ports for import and exports, a very rigid labour law despite its recent overhaul, and the cost of credit, among others.

The study established that while food commodity markets in Mozambique have been liberalised completely under structural adjustment programmes, a few players still dominate the market. There is limited

competition in agro-processing, especially with regard to maize meal, a staple food that is very important from the point of view of poverty. Companhia Industrial da Matola (CIM), a large milling company in Maputo, controls about 70 to 75 per cent of the maize meal market in Maputo. This market power is further shielded by a 20 per cent import duty (works as protection) on imported maize meal from South Africa, which could compete with local maize meal producers and thus reduce the cost of food to consumers. Apart from the large firms, the market is fairly competitive and this is reinforced by a large informal sector and the substantial number of food suppliers. However, SPS measures still cause a great non-tariff barrier to trade in the region. Food markets are dominated by a mixture of domestic, regional and international food suppliers.

## High impact interventions

Free cross-border trade in maize with neighbouring countries in the centre and the north, mainly Malawi, seems to have been the most positive development with regards to poverty reduction. Maize production in northern Mozambique is done by smallholder farmers, and trade with Malawi, which was previously restricted by local authorities, has contributed to the income levels of poor households in northern Mozambique. This has enabled households to increase their consumption of other consumer products. The development of horticultural products (especially bananas) in southern Mozambique is also cited as a great development that has contributed to employment and raised income levels of the rural poor. However, SPS requirements on agricultural exports to the region are seen as counter developmental, since they act as a non-trade barrier. This is further exacerbated by corrupt border officials and very restrictive rules of origin.

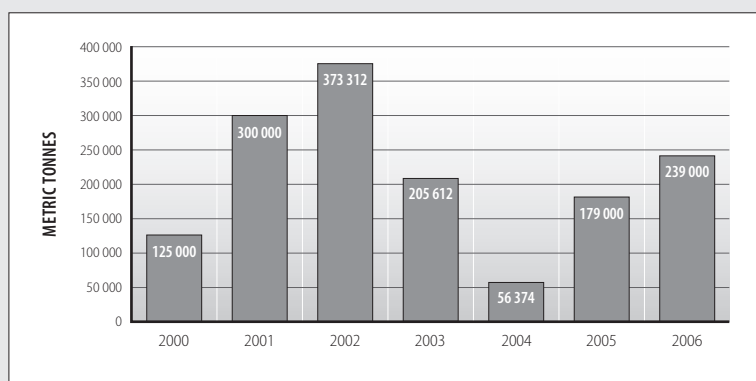
### **Box 6.5:** *The case of maize production and trade*

Patterns of Mozambique's maize trade are influenced mainly by the domestic geographic location of production and consumption. The northern part of Mozambique is generally a maize surplus area, and southern Mozambique is a deficit area. As a consequence, maize surpluses in the north are exported mainly to neighbouring countries, namely, Malawi, Zambia and Zimbabwe. Mozambique's total maize

exports by volume of the compounded annual growth rate of exports was 80 per cent between 2002 and 2006. The south of the country imports maize from the RSA. However, the domestic maize trade is constrained by poor road infrastructure, which increases transportation costs.

As illustrated in Figure 6.6, maize imports have been erratic; however there has been a general downward trend. This has probably been influenced by improvements in domestic production capacity and the ongoing improvements in road infrastructure.

**Figure 6.6:** Mozambique's maize imports (tonnes), 2000–2006



Source: Author's calculations from FAOSTAT data

It is unclear whether the maize trade between Mozambique and its neighbours is influenced by the SADC TP FTA or by internal supply constraints, which make domestic trade highly prohibitive. The situation is further complicated by the fact that Mozambique has bilateral trade agreements with Malawi, Zimbabwe and the RSA. Hence, it is hard to separate the influence of bilateral trade agreements on Mozambique's international trade in maize.

Recently, as a net food importing country, Mozambique has been affected by the increase in world food prices. Poor households spend roughly 66 per cent of their monthly income on meeting their basic food requirements.<sup>12</sup> This situation has been further exacerbated by rising inflation as a result of higher fuel prices. In the long term, high food prices will severely affect the urban poor if the current levels of food production are not improved. The country's urban population is growing and is expected to exceed 50 per cent of the population by 2025<sup>13</sup> and, in that period, demand for food is expected to double in urban areas.

This growth can also present an opportunity for farmers in the country, provided they respond by increasing the output of basic food products. However, this will only be possible if supply-side constraints, such as poor roads and marketing infrastructure, are dealt with. Accordingly, the government has adopted the Green

Revolution Strategy to boost agricultural production and improve food security. The strategy is centred on the production of rice, maize, wheat and cassava and the rehabilitation of infrastructure, such as roads. It further seeks to equip farmers with machinery, fertiliser and seed imports, as well as the development of irrigation systems and extension services (the training of new officers). The government also adopted some trade policy measures to ease the impact of rising food prices on poor consumers. In early 2008, the government reduced import tariffs on major staples (maize, wheat and rice) from 25 to 2,5 per cent, a reduction of 90 per cent.<sup>14</sup>

## Key challenges to realising the benefits of SADC FTAs

From the primary data collection the study established that key import challenges from the region include corruption at the border by customs officials, the amount of paperwork that has to be done, delays at the border in clearing goods, and rules of origin. Duties, transport costs and connectivity do not seem to be major hurdles to imports. This can be explained by the fact that Mozambique's imports are mainly from South Africa, and the two countries are connected by the world class MDC. The border between the two countries operates 24 hours. Currently, both countries are working towards a single border post that could substantially reduce the amount of time taken to clear goods. Moreover, these countries have signed a bilateral agreement with regard to free movement of persons between the two countries, which has seen the scrapping of entry visas.

On the export side, major challenges still exist with corrupt customs officials at borders, export procedures, paperwork, export permits, and the length of time taken to clear goods at the border. There also seems to be a lack of knowledge of the regional market by Mozambique exporters. This analysis seems to point out that Mozambique is affected by behind-the-border issues that need immediate attention if the benefits from trade are to reduce poverty.

## Conclusion and recommendations

Mozambique has been able to reduce its incidence of poverty over a short period of time. This has been possible through economic growth and donor support. Mozambique has a good record in implementing the

SADC TP FTAs. Its trade liberalisation under SADC has made a positive contribution to poverty reduction through job creation in agriculture and tourism, while emerging market economies are becoming important in Mozambique's investment profile and trade patterns.

By and large, the recommendations are related to trade facilitation. There seems to be consensus that the rules of trade within the region should be made simpler and more standardised. This is further echoed by the need to have a single SADC export/import document in English, French and Portuguese that can be electronically submitted to reduce the amount of paperwork and delays at the borders. There is also a need to have a single border crossing between all countries to reduce delays.

## Notes and references

- 1 Arndt, C., 2005. *The Doha Trade Round and Mozambique*. Maputo: Ministry of Planning. p. 3.
- 2 United Nations Development Programme (UNDP). 2005. *Report on the Millennium Development Goals: Mozambique*. p. 12.
- 3 Organisation for Economic Co-operation and Development (OECD). 2008. *African Economic Outlook: Mozambique*. Geneva: OECD.
- 4 Arndt, C., Benfica, R., Tarp, F., Thurlow, J. and Uaiene, R., 2008. 'Biofuels, Poverty and Growth: A computable general equilibrium analysis for Mozambique'. IFPRI Discussion Paper 00803. Washington DC: International Food Policy Research Institute. p. 2
- 5 UNDP, 2005, op. cit.
- 6 Ibid.
- 7 Nathan Associates Inc. 2008. *Private investment in the Agriculture Sector in Mozambique*. Maputo: USAID. p.5
- 8 ACP-EU. 2008. *Five SADC Configuration Members Sign an Interim EPA*. Technical Centre for Agricultural and Rural Cooperation. January.
- 9 The group of Nordic countries comprises Denmark, Finland, Norway and Sweden.
- 10 Nathan Associates Inc. 2002. *Mainstreaming Trade: A poverty reduction strategy for Mozambique*. Maputo: USAID.
- 11 Land in Mozambique remains the property of the state. However, user rights, which last for 50 years (and may be extended for another 50 years), are extended to foreign investors with a development plan. Although the

process is usually long, the cost of obtaining the user rights is generally lower than buying or leasing land in neighbouring countries.

- 12 World Food Programme (WFP). 2008. 'Where We Work: Food security situation, Mozambique'. Available at [http://www.wfp.org/country\\_brief/indexcountry.asp?country=508](http://www.wfp.org/country_brief/indexcountry.asp?country=508) [Accessed 19 January 2011].
- 13 WFP, 2008, op. cit. [Accessed 15 March 2011].
- 14 Biacuana, G., 2009. *Agriculture: Future scenarios for Southern Africa – Food production in Mozambique and rising global food prices*. Winnipeg: Trade Knowledge Network, International Institute for Sustainable Development (IISD).

## Zambia Case Study

Dominic Chanda

### Zambia's macroeconomic performance

ZAMBIA'S ECONOMY IS AMONG THE MOST OPEN IN SOUTHERN AFRICA, following the 'big bang' liberalisation of the early 1990s and further liberalisations in the 2000s. Effectively, the country has been converted from an economy dominated by state-owned enterprises, government-administrated price structures and extensive protectionism characteristic of the period prior to the 1990s, to an open economy where prices are market determined and where the bulk of parastatals have been restructured and privatised.

Following these reforms, the economy has been mixed, especially in the 1990s. Since early 2000, however, Zambia has recorded an average real GDP growth rate of five per cent (see Table 6.22). This is mainly due to the expansion in the global economy, which translated into higher demand for primary commodities, resulting in higher prices (mainly for copper). Higher prices, coupled with the privatisation of the major mines, allowed for enhanced investments in the existing mines on the Copperbelt, as well as in the new mining ventures in the North-Western Province.<sup>1</sup>

**Table 6.22:** *Selected macroeconomic indicators in percentages, 1998–2008*

|                          | 1998  | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008<br>proj. |
|--------------------------|-------|------|------|------|------|------|------|------|------|------|---------------|
| GDP                      | –1,9  | 2,2  | 3,6  | 4,9  | 3,3  | 5,1  | 5,4  | 5,2  | 6,2  | 6    | 6,2           |
| CPI                      | –     | –    | 30,1 | 18,7 | 26,7 | 17,2 | 17,5 | 15,9 | 8,2  | 8,9  | 7             |
| Bank<br>interest<br>rate | 42,1  | 46,0 | 44,1 | 52,5 | 34,5 | 15,8 | 18,3 | –    | –    | –    | –             |
| Terms of<br>trade        | –12,9 | –7,8 | –4,2 | –1,7 | –6,7 | 4,2  | 21,9 | 10,4 | 55,2 | 7,9  | –8,7          |

Source: CSPR (2008): An assessment study on the impact of donor conditionalities: Zambian case

Over the same period, most macroeconomic variables improved, as indicated in Table 6.22. The annual inflation rate declined from around 20 per



cent to less than nine per cent in 2006, while Zambia's external debt stock drastically reduced after the country reached the completion of the HIPC initiatives in 2005. The external debt stock, which stood at more than US\$7 billion in 2005, was reduced to less than US\$500 million following the cancellation of Zambia's debt by both the multilateral and bilateral creditors.<sup>2</sup>

Similarly, the increase in prices of agricultural products also positively impacted on the export receipts of non-traditional exports. However, oil prices also shot up and the impact on the Zambian economy was a rise in the import bill and an increase in energy prices.

In terms of international trade, the total merchandise export has grown from US\$784,73 million in 2000 to over US\$2 079,99 million at the end of 2005, representing growth of over 165 per cent. Most of the growth has been accounted for by exports of metals, which have grown by more than 190 per cent from US\$521,1 million in 2000 to over US\$1 514,3 million in 2005. Non-traditional exports have also shown a sustained growth, increasing by about 114 per cent from US\$266,63 million in 2000 to about US\$565,69 million in 2005. The exports in this sector have been triggered by copper rod and cable, produced food stuffs, mainly sugar, and primary agriculture products, including coffee, tobacco, fresh flowers and vegetables. This has been attributed to the fact that the country has widened its market within the region to include COMESA and SADC, the EU under EBA, and the US under AGOA; the Canadian and Japanese initiatives also provide additional market opportunities.<sup>3</sup>

The current global multiple crises (financial, food, energy, commodity) pose serious economic, social, financial and trade challenges for Zambia. In 2009, Zambia experienced a short-term fall in commodity prices, the depreciation of the kwacha, the unavailability of credit lines and trade finance, and a fall in exports. In the same year, and as a result of the global financial crisis, FDI went down, followed by the withdrawal and closure of some mines, causing job losses and social suffering. The local currency has depreciated by nearly 80 per cent over the last half year. The problem was compounded by the bailout programmes of the developed countries (US, Europe and Japan) where some protectionist tendencies are taking prominence, and trade distortive practices and subsidies are being introduced. The financial crisis has also caused a reduction of official development assistance (ODA) flows, hence Africa, including Zambia, is facing serious challenges.

## Zambia's poverty dimensions and reduction strategies

According to a monthly publication by the Jesuit Centre for Theological Reflection, the basic needs basket, based on the average actual food consumed by a family of six, highlights that more than 65 per cent of Zambians lives on less than US\$1 per day. They do not have enough food to eat, as stipulated in Zambia's basic needs basket, nor can they meet the other non-food needs, such as education, health, transport, water, electricity, soap, petroleum jelly, and so forth. In terms of food items, the following are considered essential: maize meal (mealie meal), kapenta, beans, chicken, beef, dry fish, tomatoes, onions, sugar, salt and cooking oil.<sup>4</sup>

It should be noted, however, that poor living conditions have decreased over the years, from 70 per cent in 1991 to 64 per cent in 2006. The gains of this reduction can be noticed in rural areas, where the incidence of poverty reduced from 88 per cent in 1991 to 78 per cent in 2006. In contrast, the incidence of poverty in urban areas increased from 49 per cent in 1991 to 53 per cent in 2006. This is partly due to people moving from rural areas in search of work in urban areas.

In terms of distribution of income, only about one in every three households (35 per cent) had a mean monthly income that exceeded K300 000, implying that the majority of Zambian households, or approximately 65 per cent, had incomes below the basic needs basket.

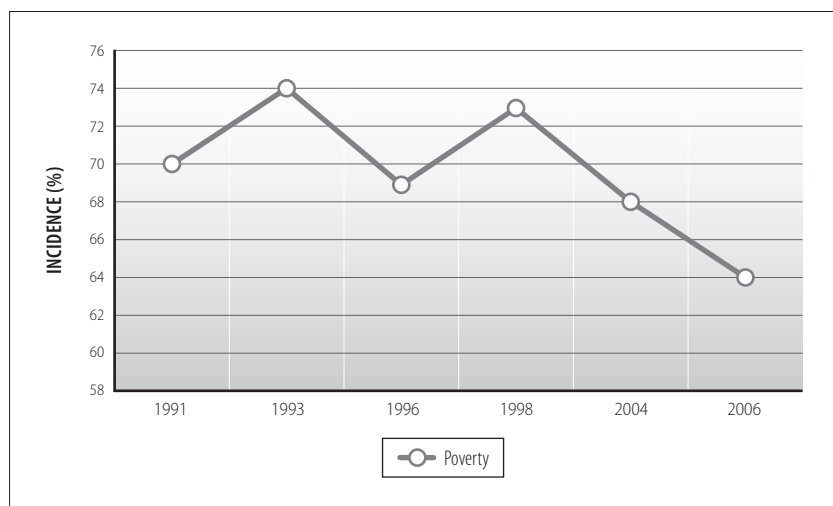
As for access to health facilities, the majority of households – about 95 per cent – have access to a health facility. More urban households, 96,2 per cent, reported having used the facility, compared to 94,4 per cent of their rural counterparts. In terms of the child nutritional status, overall, 54,2 per cent of children aged 3 to 59 months were stunted in Zambia.

In respect of access to safe water, the proportion of households with access to safe water was 59 per cent. Access to safe water was higher in urban (about 89 per cent) than in rural areas (about 43 per cent). The sanitation statistics indicate that 59 per cent of households in Zambia had their own pit latrine, 7,3 per cent a communal latrine, and another 4,6 per cent used neighbours' pit latrines. Fifteen per cent used flush toilets (9 per cent own flush toilets inside the house, 5 per cent own flush toilets outside the house and 1 per cent shared a flush toilet) and about 13 per cent of the households regrettably did not have any toilet facility.<sup>5</sup>

Figure 6.7 indicates that the incidence of poverty in Zambia has been falling from as high as 74 per cent in 1993 to 64 per cent in 2006. The

economy has been growing at a faster rate than poverty levels have been falling owing to the growth in mining companies, which are capital-intensive, compared to agriculture, which is labour-intensive.

**Figure 6.7:** *National trends in incidence of poverty (1991–2006)*



Source: Living Conditions Monitoring Survey – Central Statistics 2008

Zambia's quest for economic development and poverty reduction has been spearheaded by economic reforms and liberalisation. Following the Structural Adjustment Programme (SAP) in 1998, and the NPRS framework, which was prepared and endorsed by government, the NPRS was translated into the National Poverty Reduction Action Plan (NPRAP) and, after consultations and refinements, was presented in January 2000 for approval by Cabinet. However, this process was overhauled when the IMF announced the replacement of its ESAF by the PRGF.

It subsequently became a requirement for every country to prepare a PRSP, through nationwide consultation, to access the new concessional borrowing facilities, including debt relief. PRSPs recognise that trade policy and export promotion are key to the expansion of the markets for domestically manufactured goods and ensuring international competitiveness in local production. However, the initial optimism that accompanied the start of the implementation of PRSPs gave way to varying degrees of scepticism. From the branding of the PRSP as 'new wine in a new bottle' in contrast to the SAP, many started wondering if it was only

'old wine in a new bottle' or 'new wine but in the old bottle' or, in essence, 'the same old wine in the same old bottle' (i.e. it was just the same old SAP in disguise) provided by the IMF and the World Bank to appease the critics of SAP.

The liberalisation schedule in Zambia was done on three levels: autonomous liberalisation, under the auspices of the Breton Woods institutions; and bilateral and regional trade agreements, such as COMESA, SADC and the WTO. Autonomous liberalisation policies saw all tariff restrictions being rationalised, licensing, and quantitative restrictions on imports and exports removed and the tariff structure rationalised. The maximum rate came down from 100 to 25 per cent, and the number of bands from 11 to four.

Autonomous liberalisation brought a mixed impact on different targets in Zambia. Business investment increased both genuine and bogus investments. For the consumers, there was an increase in good quality cheap products, mainly foodstuffs and manufactured products, consumed mainly by the poor. On the other hand, competition increased, causing massive closures, especially of private state enterprises, leading to job losses.

It should be noted that Zambia had negotiated bilateral trade liberalisation with countries like Mozambique, Malawi, Tanzania, Angola and South Africa. However, these bilateral trade agreements have now all fallen under the SADC FTA, owing to tariff reductions at the regional level. Zambia has also undertaken trade liberalisation within the regional framework, in particular under COMESA. It joined the COMESA FTA when it was launched in 2000. The COMESA market currently accounts for 15 per cent of total exports and about 30 per cent of non-traditional exports. Zambia's biggest market in COMESA is the DRC, which accounted for 40 per cent of total COMESA export in 2003. This is followed by Zimbabwe. Zambia's COMESA exports consist mainly of processed foodstuffs, sugar and construction products such as cement, cables and copper rods. The country imports mainly edible oils, foodstuffs and simple manufactures.<sup>6</sup> It should be noted that products that are exported to the COMESA have a bearing on poverty reduction as they are mostly agricultural, where there is an active concentration of poor people. Secondly, the products also include manufactures, mostly produced by small and medium enterprises. Further, there is a high level of cross-border trade, especially by women at borders like Kasumbalesa, Livingstone and Muchinji, where maize and other agricultural products are traded.

## Status of liberalisation under the SADC FTA and the demand and supply response

Zambia is a signatory to the SADC TP and, since 2000, has negotiated two reduced tariff schedules: one is applicable only to South Africa and the other to all other SADC members. The tariff schedule applicable to SADC members, with the exception of South Africa, has three categories, as outlined in Table 6.23.

**Table 6.23:** *SADC tariff reduction schedule*

| Category | Classification                                                                                                                                                                                                                                              |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A        | Products went into zero duty immediately upon implementation of the SADC protocol in 2000 (capital goods and agricultural equipment).                                                                                                                       |
| B        | Products gradually going down to zero duty over a period of eight years (2008) include textile products and other intermediate products.                                                                                                                    |
| C        | Products that will reach zero duty twelve years (2012) after implementation. These products are known as sensitive products and for Zambia include meat and dairy products, tea, wheat flours, raw sugar, cement, textiles and clothing and motor vehicles. |

Source: Ministry of Commerce Trade and Industry-Zambia

Zambia front-loaded the reduction of tariffs on products in category A (raw materials and capital goods). These are used mainly in industry and mining, and have little impact on poverty reduction. Category B products, whose duty was eliminated towards 2008, largely include textile products and other intermediate products. These have some bearing on poverty reduction by affording an opportunity for the poor to access cheap, good quality clothing compared to the second-hand clothes – ‘salaula’ – that have flooded the market.

Category C goods are mostly agricultural products (tea, dairy products, wheat flour, sugar, etc.) that have been back-loaded for liberalisation in 2012. This has compromised the impact of the FTA on poverty. Other major problems facing the FTA include strict and complex rules of origin, and perverse and increasing non-tariff barriers. Currently, Zambia is preparing an offer to liberalise the services sector under SADC.

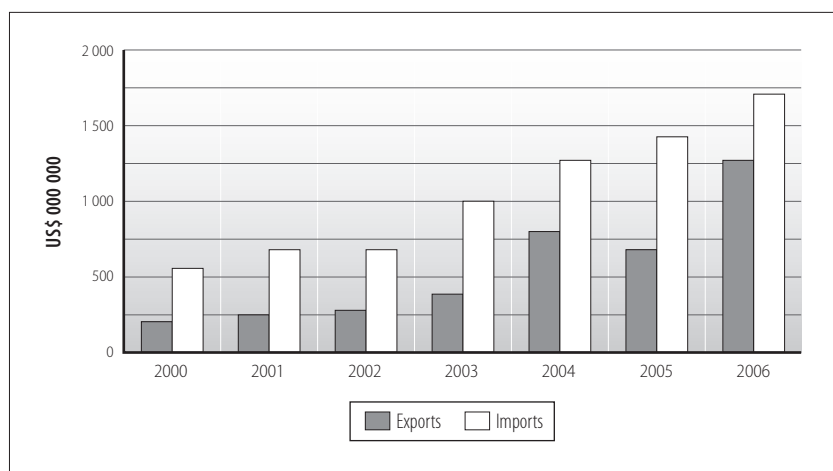
In conclusion, an analysis of Zambia’s liberalisation shows that, so far, products that have a direct impact on poverty reduction are either on the sensitive list or the exclusion list. Zambia has liberalised products that

mainly benefit the mining and manufacturing sectors, while maintaining restrictions on agricultural and food products.

## Demand response due to an FTA

Zambia's involvement in SADC and the implementation of the Trade Protocol has resulted in an increase in trade flow between SADC countries and Zambia. As shown in Figure 6.8, both exports and imports increased dramatically between 2000 and 2006.

**Figure 6.8:** *Zambia exports and imports under the FTA to the SADC region (US\$)*



Source: Constructed from TIPS website by the author

Zambia's main exports to the SADC region are metal and mineral products, followed by beverages, tobacco and textile products. These products do not have a direct impact on poverty reduction in the destination countries, but would assist in poverty reduction in Zambia if export receipts were shared through increased employment or redistributive mechanisms through the public sector. South Africa is the major destination for Zambia's metal and mineral products, while the DRC is a major importer of foodstuffs from Zambia.

The major imports are machinery, mostly for the mining sector, vegetables, prepared foodstuffs (through chain stores like Shoprite and Spar, among others), chemicals, metal products, paper and textile products. The

DRC is also a leading exporter of mineral products to Zambia. The growth of the mining and manufacturing sectors has contributed to the importation of machinery into the country. Among the most positive results of the expansion of SADC–Zambia trade have been the increase in consumer choice, a consistent and reliable supply of goods to local consumers and the creation of price stability in both national and local markets. There are good quality products on the market for consumers, providing them with a wide choice of shops and goods.

Further, informal cross-border trade has also increased in the SADC region, especially along borders such as Kasumbalesa, Livingstone and Kazungula. The increase in activities across the border has had a direct impact on poverty reduction, as these are activities women are mostly prominent in and statistics indicate that women are more prone to deep poverty. However, the benefits accruing to consumers as a result of the implementation of the SADC FTA are compromised by various non-tariff barriers to exports and imports, such as cumbersome customs administration procedures, long delays at border posts, corruption, and failure to meet SPS standards.

### **Supply response – new investment and jobs**

During the period 2000–2008, Zambia recorded an upsurge in capital and investment inflows from the SADC region, especially South Africa, in retail, banking, mining, construction, telecommunications, agriculture, the hotel and tourism sectors, as well as infrastructure development. Specifically, there has been expansion of major South African retailers such as Shoprite, Woolworths, Truworths and Pep Stores, and food chains such as Nando's and the Steers Group, across Zambia. This has been accompanied by the expansion of SADC property developers who are building shopping centres to house these chains, including Manda Hill and Arcades in Lusaka and Falls Park in Livingstone. There have been some acquisitions as well, such as Zambia Breweries and Zambia Bottler by South African Breweries Ltd.

One direct impact of such investment has been the increase in the general employment level from 2000 to 2005. Most of the new jobs are in the retail sector, agriculture, banking and construction, as well as the hotel and tourism sectors, where there are more labour-related activities. Regarding

the types of jobs, two main scenarios emerge: in the banking sector, for example, Stanbic Bank has created professional jobs, compared to other sectors, like the retail sector, where unskilled labour is employed. Given its capital-intensive nature, the mining and construction subsectors have created both professional and unskilled jobs. The coming of Zimbabwean farmers in the central part of Zambia has also created jobs in the agriculture sector, which is labour-intensive.

Further, Zambia has benefited in services as the majority of Zambian citizens are working and providing services within the region, in particular in South Africa, Botswana and Namibia, and this has also seen an upsurge in remittances. However, the benefits presented by the SADC FTA are limited by the supply-side constraints faced by Zambian companies. In SADC comparative terms, the cost of production in Zambia is too high, which makes local goods uncompetitive in the regional market. Electricity, fuel, bank interest rates and telecommunication costs are higher than in most countries in the SADC region. Public utility services are not only high but are also unreliable and of poor quality.<sup>7</sup> In addition, the poor state of roads, rail and communication services not only impede the smooth transportation of commodities but also increase production and marketing costs, affecting the competitiveness of Zambian firms.

### **High impact intervention programmes (maize trade)**

The failure of the agricultural sector in Zambia to provide livelihoods for the majority of people in rural areas has been considered a major factor contributing to rural poverty. A broad range of policy reforms in the agricultural sector were introduced to stimulate growth and improve the performance of the agricultural sector in order to reduce poverty and enhance household food security in the country. These reforms included land and fertiliser reforms and crop market reforms that allow the private sector to participate in input supply and crop marketing, while reducing government participation. Three broad ranges of programmes have been introduced, which include the Food Security Pack (FSP), the Fertiliser Support Programme and the Food Reserve Agency (FRA).

On the other hand, agriculture (horticulture exports, tobacco) has contributed effectively to increased income and employment creation for Zambians, especially rural households.



**Box 6.6:** *Examples of recent high impact interventions to reduce poverty in Zambia***Food Reserve Agency**

The FRA is a parastatal established in 1996 with the objectives of administering a National Strategic Reserve, marketing and market facilitation, as well as management of storage facilities for maize. The FRA sets floor prices for maize to protect farmers from middlemen and traders who exploit them. It is also involved in the import and export of selected crops, mostly maize, according to market conditions, in collaboration with the private sector, and it monitors the supply and demand of essential commodities. In the event that the private sector is unable to meet the local demand, the FRA releases reserve stocks on the market and also on the export market. In the case of national grain shortages, it imports essential commodities as designated by the Ministry of Agriculture and Cooperatives.

The FRA provides market information on grain trading, processing, stocks and prices on the local and international markets, and disseminates such information for the purpose of meeting the requirements of government, consumers, producers, traders or other persons interested in the designated commodities. The FRA has set up the maize buying points in the rural areas where the private sector has failed to reach. By selling at FRA recommended prices and near to their farmsteads, farmers have realised increased profits from their crops, as opposed to the situation where they have to barter or transport their crops at great cost to urban markets. This is in addition to crop market diversification by stimulating markets for alternative designated cash and food crops predominantly grown by small-scale farmers. Improved access to markets for traditional crops grown by small-scale farmers in rural areas has been achieved through the promotion of rural markets, bulking centres and storage facilities close to farmsteads, thereby reducing the distance and transport costs incurred by farmers in delivering their products to the depots, thus increasing their incomes and helping sustain their livelihoods and food security.

**Food Security Pack**

In an attempt to address the recurring problem of poverty, in November 2000 the government introduced the targeted FSP to empower at least 200 000 vulnerable but potentially viable farmers annually, covering all nine provinces and the 73 agricultural districts in Zambia.

The beneficiaries include female-headed households, orphanages, child-headed households and other farmers cultivating less than one hectare.

The FSP consists of a cereal, legume root or tuber fertiliser and lime, depending on agro-ecological zones. It is funded by government and has been sustainable as it targets those who have potential but are vulnerable.

## Conclusion and recommendations

In conclusion, it is important to note that Zambia has just finished implementing its commitments under the SADC TP, hence it is too early to determine its exact impact. Preliminary findings show that the implementation of the SADC TP has widened Zambia's imports from and exports to the regional market. While the poverty situation/trends have improved since 2000, no direct link can be made to the implementation of the SADC TP, as Zambia was implementing a wide range of economic and trade reforms at the same time within autonomous, bilateral, regional (COMESA) and multilateral (WTO) trade liberalisation.

Exports from Zambia to the region are concentrated mainly in minerals and equipment, which have no direct bearing on poverty reduction. Zambia needs to diversify into the production of poverty-reducing products, especially agricultural related, as well as to embark on value addition for products that require manual work and not machinery.

The benefits from an FTA are compromised by the high production costs and various non-tariff barriers that domestic producers and consumers respectively face, compared to their counterparts in the region. Further, an improvement in infrastructure development is key to increasing efficiency in the administration of mechanisms for exported products. In order to realise poverty reduction in Zambia, there is a need for the country to invest in human resources, the development of infrastructure and good governance.

Lastly, there is a need for the SADC Regional Indicative Strategic Development Plan (RISDP) poverty reduction programmes to be incorporated into national programmes and implemented in districts to ensure that SADC FTAs generate benefits for the nation. It is important to note that reaching the HIPC completion point has had a significant impact on improving Zambia's economic performance and poverty reduction.

In general, there is a growing consensus in Zambia over the relationship between increased regional trade and poverty reduction. Although trade alone may not be enough to eradicate poverty, it is essential if poor people are to have any hope of a brighter future.<sup>8</sup> The 2004 United Nations Conference on Trade and Development report on LDCs states that international trade is vital for poverty reduction in all developing countries, and adds that the links between trade and poverty are, in practice, neither simple nor automatic. Also, the national and international policies that can

enable trade to act as a powerful instrument for poverty reduction ‘must be rooted in a development-driven approach to trade rather than a trade-driven approach to development. An exclusive focus on trade, which assumes that poverty is reduced through trade rather than through development, is likely to prove counter-productive. Rather, it is necessary to look at the relationship between trade and poverty from a development perspective’.<sup>9</sup>

For Zambia to benefit from the SADC FTA and reduce poverty, the study recommends the following measures:

- Improving the transport system to facilitate the free flow of goods and services across the country
- Reducing taxes on fuel and electricity, which will translate into a lower cost of doing business in Zambia
- Technical assistance and capacity building of small, micro and medium entrepreneurs with new skills and financial support to capture or take advantage of the existing SADC regional market to expand their market coverage
- Encouraging private sector participation in identifying the areas of possible intervention to help the free flow of goods and services and possible products that can be produced specifically for export markets, which will have a bearing on poverty reduction
- Ensuring faster implementation of the SADC FTA by ensuring that pro-poor agricultural products are removed from the sensitive list basket, and making sure all non-tariff barriers are dealt with to facilitate the free flow of goods across the region
- Enhancing coordination of the design and implementation of regional and national poverty reduction programmes.

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## Zimbabwe Case Study

Tendai Chigwada and Evangelista Mudzonga

### Introduction

CURRENTLY, ZIMBABWE CAN BE CHARACTERISED AS BOTH A COUNTRY IN immeasurable dire straits with the worst performing economy in the world in a non-war situation, and as being at major crossroads and exhibiting enormous potential for economic revival and growth. Owing to economic and political governance issues and the illegal economic sanctions imposed by the EU and the US over the past decade, growth has been consistently negative, characterised by declining per capita income, hyperinflation, high unemployment, poor harvests, severe shortages of food, fuel and foreign currency, and deteriorating delivery of public services such as water, electricity, sanitation and health.<sup>1</sup> It is no surprise that poverty is becoming more widespread and severe.

A national poverty survey carried out in 2003 found out that 48 per cent of households could not meet basic food requirements in that year, compared to 20 per cent in 1995, representing a 148 per cent increase in poverty.<sup>2</sup> Life expectancy in Zimbabwe is 37 years for men and 34 years for women, mainly due to a high HIV prevalence rate of 15,6 per cent in 2007. Infant mortality increased from 52 per 1 000 in 1990 to 68 per 1 000 in 2006. Further, nearly 90 per cent of the workforce is out of formal employment as of 2009. These figures reflect the gravity of the poverty situation in Zimbabwe.

### Zimbabwe's trade liberalisation and economic development

Zimbabwe has extensive trade liberalisation experience, starting with autonomous trade liberalisation under the World Bank structural adjustment programmes of the 1990s; multilateral trade liberalisation within WTO; regional trade liberalisation within COMESA; recently under SADC, the ACP-EU EPA negotiations; and various bilateral trade arrangements with its neighbouring countries. All these initiatives have produced mixed re-

sults in terms of impact on growth and poverty reduction owing to a poor implementation record and policy reversals.

### **Autonomous liberalisation**

The pre- and post-independence era was characterised by widespread government interventions and price controls in the economy, which caused extensive distortions and mixed fortunes for the economy. To address these distortions, the government, with the support of the IMF and the World Bank, adopted economic and trade liberalisation programmes under the Economic Structural Adjustment Programme (ESAP, 1991–1995). Accordingly, government liberalised trade, decontrolled the foreign exchange market, and removed import licences and tariffs on controlled capital goods. The tariff structure was rationalised and the export promotion measures set up in the 1980s were removed.

Overall, the ESAP reversed the development progress that had been achieved after independence. Manufacturing output contracted as industries lost comparative and competitive advantage, as it became expensive to replace obsolete machinery owing to high import costs and the depreciated currency. Many firms closed down, thousands lost their jobs and poverty levels increased.

Further, the reform programme was not adequately funded and hence exposed millions of people to poverty. Even the homegrown programmes that succeeded the ESAP did not do well. The Zimbabwe Programme for Economic and Social Transformation was launched in 1998, but failed because it lacked funding for its effective implementation. In 2001, another programme was put in place (as a short-term measure) to address the declining economic performance. Thereafter, the Millennium Economic Recovery Programme and the National Economic Revival Programme were implemented, but still failed owing to a lack of donor support and poor political and economic governance. A major lesson from Zimbabwe's economic reform initiatives is that poverty-related programmes need not only to be backed by inflows of donor financial resources, but also by good economic and political governance, which is key to their success and to poverty reduction.

After a decade (1999–2009) of unprecedented economic crisis, which saw the economy shrink by a cumulative 45 per cent, inflation in the

billion per cent, and the total collapse of public service delivery owing to political crisis and pervasive economic bad governance – characterised by widespread price controls and government interventions – the new inclusive unity government responded in 2009 by undertaking a ‘big bang’ autonomous economic and trade liberalisation. This saw all forms of government price controls being abolished. The most notable measures included the introduction of multiple currencies to replace the local currency, the removal of all duties on food imports and the removal of price controls and market liberalisation. The results have been immediately positive, with monthly inflation falling to negative single-digit levels, while the food supply has improved.

To assess the impact of trade liberalisation at country level, a survey was undertaken with 30 participants covering various issues on the subject. On the impact of previous liberalisation programmes on poverty reduction, 89 per cent of the respondents indicated that price controls were a disastrous policy which exacerbated poverty in the context of the political and economic crisis the country was facing. They therefore agreed that autonomous liberalisation was crucial in terms of poverty reduction as it helped mitigate food shortages by making available basic food products like mealie meal, cooking oil, sugar, flour, and so on.

### Liberalisation under bilateral trade agreements

Article 27 of the SADC TP recognises the need to continue the exchange of bilateral trade preferences existing at the time of entry into force of the protocol, provided they offer (deeper) market access than that proposed during the phase-in period of the SADC FTA.

Zimbabwe currently has five preferential bilateral trade agreements:

- **Zimbabwe–Botswana.** This arrangement was ratified in 1988. It offers reciprocal duty free trade on all products grown, wholly produced, or manufactured wholly or partly from imported inputs, subject to a 25 per cent local content requirement.
- **Zimbabwe–Namibia.** This reciprocal agreement became effective in 1992. It is subject to rules of origin, which require at least 25 per cent local content for manufactured goods, and that Zimbabwe and Namibia should, as exporters, be the last place of substantial manufactur-

ing. Other eligible products include minerals and vegetable products, live animals and their products.

- **Zimbabwe–Malawi.** This was implemented in 1995. It is also a reciprocal trade agreement, with 25 per cent domestic value-added requirement. However, it is often characterised by implementation problems, in particular with regard to rules of origin, and the fact that there is no dispute settlement mechanism. It was renegotiated in 2002.
- **Zimbabwe–Mozambique.** Signed in January 2004, this agreement became operational on 1 March 2005. Its objective is to eliminate tariff and non-tariff barriers and also to cooperate in customs and trade promotion. The agreement provides for duty free trade between the two countries, with the rules of origin specifying a 25 per cent domestic value added. Excluded from the arrangement are refined and unrefined sugar, Coca-Cola/Schweppes soft drinks, firearms, ammunition and explosives, motor vehicles and cigarettes.
- **Zimbabwe–South Africa.** An initial agreement between the two countries in 1964 provided for preferential rates of duty, rebates and quotas on certain goods traded between the two countries, such as dairy products, potatoes, birds and eggs. Specified types of woven fabric, for example cotton, are subject to concessional tariff rates when they meet the specified levels of Zimbabwean content – 75 per cent, in most cases. The most recent version of the agreement was signed in August 1996, whereby the tariffs and quotas on textile imports into South Africa were lowered.

However, the relationship between Zimbabwe and South Africa is unequal. Zimbabwe's GDP in 2004 was three per cent of that of South Africa. Millions of Zimbabweans are estimated to be in South Africa in search of greener pastures. Most of these are skilled and therefore South Africa is benefiting in terms of increased productivity at a time when Zimbabwe is experiencing critical skills shortages. Further, South African companies tend to control resources so that they can manipulate the global markets instead of recognising the national priorities of the host country, for example in platinum and chrome.<sup>3</sup> South Africa has technology developed to suit African conditions and has enough capital resources and the infrastructure to support it over the region.

Prior to 1997, Zimbabwe's textile and clothing sector was competitive against South Africa. However, the breakdown of renegotiations of the South Africa–Zimbabwe Trade Agreement in 1996, as well as the discon-



tinuation of the export incentive scheme in 1994, led to a decline in Zimbabwean exports to South Africa. While Zimbabwe's clothing exports to SADC increased (from 5 per cent to 9 per cent) in the 1990s, its exports to South Africa, the region's largest market, remained constant owing to high tariff barriers and quota restrictions after the end of the special agreement on textile and clothing. Recently, unstable political and macroeconomic conditions and a high tariff regime have also contributed to the deterioration of Zimbabwe's trade deficit with SACU.

In general, pre-existing bilateral relationships that have been forged over time will continue to play an important role in determining intra-regional trade and industrial organisation in the region. The agreements have the same purpose and offer the same benefits under the same origin-conferring criteria, which are much better than the current SADC FTA rules of origin, which are cited as being too restrictive and therefore a hindrance to regional trade. They aim to encourage and stimulate trade between Zimbabwe and its neighbouring countries through the elimination of tariffs and other non-tariff barriers to trade.<sup>4</sup>

Trade data for SADC and other sub-Saharan trade zones suggest that many of these countries tend to display trade patterns that reflect special bilateral relationships. Beyond the concluded trade agreements, there are established networks that serve to greatly lower the risk and uncertainty involved in trading in a regional market. This has been specifically evident in trade between South Africa and Zimbabwe in the clothing and textile and other industries. Besides proximity between the two economies, political alliances between governments, as well as bilateral agreements between South Africa and Zimbabwe, there has also been an historical development of strong trade linkages.<sup>5</sup>

### **Regional trade liberalisation in COMESA**

Zimbabwe is a founding member of COMESA and has fulfilled its trade liberalisation commitment under the COMESA FTA. The key challenge is its multiple memberships in SADC and COMESA, as these two organisations implement trade policies in competition with each other. In particular, there is still a great deal of tariff and trade policy divergence between COMESA and SADC and within each regional group. The current tripartite process, which envisages the establishment of an FTA for the

East African Community (EAC), COMESA and SADC, aims to address this challenge.

The survey undertaken as part of this study showed that the COMESA FTA regime is utilised mainly by Zimbabwe business people for trade with countries with dual membership in COMESA and SADC. The SADC trade regime is least utilised owing to its restrictive rules of origin. The COMESA trade arrangement has simplified rules of origin and duty free entry for qualifying products. With non-COMESA countries in SADC, it emerged that most of the trade between Zimbabwe and its counterparts generally takes place under the bilateral trade arrangement – that is, Zimbabwe–South Africa and Zimbabwe–Botswana – rather than the SADC FTA regime, mainly because of their simplified rules of origin and long-standing business relations.

Although trade liberalisation within COMESA enhances market access in the region, it should be noted that pre-existing bilateral agreements within the region remain important ‘pipelines’ for supply chain development and the further vertical and horizontal integration of production lines owing to the lower risk and transaction cost profiles, from a firm perspective, associated with these agreements.

### **Implementation of the SADC FTA and its impact**

Zimbabwe signed the SADC TP in 1996 and started implementing it in 2000. Owing to the differentiated levels of development among the members, it was agreed that trade liberalisation should take place in a transitional manner at varied paces, taking into account the level of development of the member states. The countries were divided into three categories: the relatively well-developed (SACU); the developed (Mauritius and Zimbabwe); and the least developed (Malawi, Mozambique, Tanzania and Zambia). SACU countries were expected to front-load their tariff phase downs, while Mauritius and Zimbabwe were to mid-load their phase-downs, and the least developed were to back-load their tariff phase downs.

Accordingly, Zimbabwe has two offers under the SADC TP. One is between Zimbabwe and South Africa, while the other is between the country and RoSADC (differentiated offer). These two offers differ in that the pace of tariff phase down under the former was slower than in the latter. In terms of trade, the differentiated offer was front-loaded and, as such,

the level of preferences offered to the rest of SADC rather than to South Africa and by definition to SACU were more lucrative in the first phases of implementation, although the tariffs will converge as it moves towards year 12 of implementation.

The scope and commencement of the tariff phase down of products was influenced by the degree of sensitivity of the products. For Zimbabwe, sensitivity was defined in terms of the impact of tariff reduction on government revenue, industrial development considerations, environment, employment, national security, food security and the business environment, and infant emerging industries. The degree of sensitivity plus the tariff levels informed the categorisation of products into four categories, namely A, B, C and E for the Zimbabwe–South Africa offer; and A, B and C for the differentiated offer.

Category A was a list of products (2 530 commodity lines) that the country considered not sensitive and hence was ready to reduce the tariffs of to zero in the first year of implementation, that is, 2001. At implementation, the dominant tariff rate that was being applied was five per cent. According to the midterm review, the tariffs of all products in this category were reduced to zero in 2001.

- **Category A** of the differentiated offer had 3 229 product lines and was expected to be zero per cent in 2001.
- **Category B** comprised products that were considered relatively less sensitive.
- **Category C** consisted of products that Zimbabwe considered sensitive and hence was not prepared to phase down the tariffs in 2001, but was ready to do so marginally beginning 2004.
- **Category E** is the list Zimbabwe considered most sensitive.

While Zimbabwe was able to meet the regional threshold of 85 per cent tariff liberalisation by 2008, its implementation during the initial years was chaotic and inconsistent with the agreed timetable. Zimbabwe submitted its entire SADC schedule to the SADC Secretariat for the period 2001 to 2010, but reserved the right to gazette the applicable SADC tariffs annually. As such, gazetting was not always according to plan. For example, the 2001 statutory instrument was published six months after the due date and overlapped into 2002. The one for 2002 was gazetted at the end of the year and was applied for in 2003.

Delays in gazetting the tariff schedules also delayed phasing down the tariffs according to the offer. The delay in the implementation was done in order to curb fiscal constraints, as the country's revenue base had already shrunk owing to the non-performance of the economy. The SADC TP midterm review suggested that the implementation process was not only unpredictable but marred with challenges, notably staff movement in the Ministry of Industry and International Trade, the merger of the tax and customs departments to form the Zimbabwe Revenue Authority, loss or transfer of key personnel working on the SADC TP, and lack of financial support from the international community.

Notwithstanding this, by 1 January 2008, 80 per cent of the country's trade with the region was at zero per cent tariffs under the SADC FTA. This comprised mainly raw materials and intermediate goods.

A major observation is that Zimbabwe's sensitive products are those products that directly impact on poverty reduction in the region. The sensitive products include maize, salt, sugar, cooking oil, soap and clothes; hence these were not part of the trade that was achieved for the FTA. Meat and meat products were bracketed as sensitive for fear of flooding the Zimbabwean market with EU products through the SA–EU Trade, Development and Cooperation Agreement. Sugar is being traded under a quota system and the exports are primarily destined for Botswana, South Africa, Swaziland and Zambia.

## Zimbabwe–SADC trade

Zimbabwe's key regional trading partners are found in SADC. Table 6.24 shows that, in 2005, Zimbabwe's major export destinations included South Africa, Zambia, Botswana, Malawi and Mozambique.

**Table 6.24:** *Zimbabwe's top ten export destinations in 2005*

| Product |          | Export earnings (US\$) |
|---------|----------|------------------------|
| 1       | RSA      | 145 556 392            |
| 2       | Zambia   | 53 991 167             |
| 3       | Botswana | 33 572 346             |
| 4       | Malawi   | 26 504 763             |

**Table 6.24** (*cont.*)

|    | Product                  | Export earnings (US\$) |
|----|--------------------------|------------------------|
| 5  | Mozambique               | 21 635 406             |
| 6  | United States of America | 16 198 230             |
| 7  | Namibia                  | 15 567 026             |
| 8  | Italy                    | 13 034 637             |
| 9  | United Kingdom           | 12 312 058             |
| 10 | Netherlands              | 12 136 685             |

Source: Masiwa, 2007

SADC, and in particular South Africa, is attractive to the Zimbabwean industry for a number of reasons. Geographic proximity, access to the sea, a developed manufacturing sector, commonality in business language, traditional linkages, good transport infrastructure, and a developed financial sector makes South Africa Zimbabwe's natural and convenient trading partner for both exports and imports. Most companies in Zimbabwe have their headquarters in South Africa. SADC has relatively developed markets and infrastructure (road network, railways, ports, handling/storage facilities) compared with COMESA.

Further, there are long-standing economic and commercial links. For example, it came out in interviews with the private sector that because of these good links, Zimbabwean and South African retailers have agreed that if the former purchase orders are above US\$60 000, they will be offered free transport and therefore can afford to offer the imported goods at the same price as in the retail shops in South Africa. This is supported by an enabling environment composed of efficient support services (banks, insurance, health, education) and a reliable legal framework.<sup>6</sup> The proximity of the SADC states reduces transaction costs to Zimbabwe businesses when it comes to the movement of goods and services. In addition, Zimbabwe shares a common political solidarity with SADC member states.

Notwithstanding this, the survey established that there are some push factors hindering the expansion of SADC–Zimbabwe trade, especially with South Africa. First, there are incessant non-tariff barriers with particularly restrictive rules of origin that have resulted in much of the trade being undertaken under bilateral trade arrangements rather than under the SADC certificate of origin.<sup>7</sup> Second, widespread theft and armed robber-

ies in South Africa are of concern, especially for transit goods. Third, the bureaucratic clearing process is long, costly and time consuming. Lastly, SADC production structures are competitive with each other rather than complementary; most of them bar RSA produce and export minerals.

## **FTA and Zimbabwe's domestic production response**

The private sector in Zimbabwe currently faces serious challenges to enable it to turn around the fortunes of the economy and reduce poverty in the context of regional trade liberalisation initiatives, namely the SADC FTA. Capacity utilisation currently is very low at 10 to 20 per cent, as a result of numerous factors such as shortages of fuel, power cuts, shortages of inputs and spare parts, government controls on prices, distortions in the exchange rate, and loss of experienced and skilled manpower owing to poor working conditions. Manufacturing has also declined more sharply than the economy as a whole, falling from about 19 per cent of GDP in 2001 to an estimated 15 per cent by 2006. Mining accounts for a fairly small proportion of GDP because its value-added processes fall under manufacturing.<sup>8</sup> As a result, the country's export performance fell, depriving the economy of much-needed foreign currency earnings.

In addition, Anglo American companies have been strongly discouraged from investing in Zimbabwe by their home governments. This has adversely affected FDI flows into the country, thus accentuating the foreign exchange shortages leading to further shortages of fuel and imported raw materials.<sup>9</sup>

The shortage of fuel has had a debilitating impact on all sectors of the economy, leading to a continuous decline in economic activity. This has generated additional inflationary pressures and speculative behaviour in the economy. The prevalence of HIV (now at 18 per cent) is negatively impacting on the productivity of the workforce, resulting in loss of skilled workforce, loss of institutional memory and low company output.

As a result of these challenges, Zimbabwe's domestic industry could not reposition itself to take advantage of the SADC TP. Instead, business responded more to the political signals and speculation was the order of the day.

Until 2009, Zimbabwe's export regulations were heavily anti-export and costly. Government required exporters to offload their earnings in

exchange for worthless local currency and securing export documents was expensive. Table 6.25 shows these costs.

**Table 6.25:** *Costs of export documentation*

| Item                         | Cost (US\$) |
|------------------------------|-------------|
| Phyto certificate            | 20,00       |
| Export permit                | 25,00       |
| Import permit                | 25,00       |
| Certificate of origin SADC   | 30,00       |
| Certificate of origin COMESA | 30,00       |
| Certificate of Origin EURO 1 | 10,00       |
| Sample analysis              | 42,00       |

Source: Chabata, 2009

**Box 6.7:** *Collapse of Zimbabwe's textile and clothing industry*

Prior to liberalisation, Zimbabwe's textile industry was competitive, even against South Africa, which was the reason South Africa refused to renew the bilateral preference textile agreement with Zimbabwe in 1996. Beginning with the economic reforms of the 1990s, the industry faced serious challenges that led to closures and job losses by large players in this sector. Hurungo (2007) cites sources of deindustrialisation in this sector as the liberalisation of trade in the 1990s, as well as the exacerbating effect of the Look East policy that saw an influx of cheap textiles from China leading to the closure of big firms such as David Whitehead. The sector was also hit by the expiry of the SA–Zimbabwe bilateral agreement in 1996, as well as the WTO Agreement on Textiles and Clothing in December 2004. Table 6.26 shows the impact of these factors, including autonomous liberalisation, on the sector, namely a near 50 per cent reduction in employment levels between 1990 and 2005.

**Table 6.26:** *Job losses in the textiles and clothing sector, 1990–2005*

| Sector       | Employment    |               | Job losses    |
|--------------|---------------|---------------|---------------|
|              | 1990          | 2005          |               |
| Textiles     | 24 000        | 11 522        | 12 478        |
| Clothing     | 27 000        | 17 000        | 10 000        |
| <b>Total</b> | <b>51 000</b> | <b>28 522</b> | <b>22 478</b> |

Source: Hurungo (2007) as adopted in Kanyenze (2006)

Cheap Chinese imports have affected the entire textile production and sales chain, from cotton growing, yarn production, ginning and clothing manufacturing. While cheap Chinese clothes are affordable to the majority in view of the declining income levels, upmarket department stores such as Edgars, Barbours, Meikles, Greentemans and Clicks have been the major victims. Consequently, there have been calls to reserve the clothing retail sector for local investors.

### Performance of Zimbabwe's agriculture sector (2000–2008)

Agriculture is at the heart of the Zimbabwean economy and its performance is mirrored in the other sectors. The sector contributes 18,5 per cent of the GDP; 40 per cent of total export earnings at its best from tobacco, cotton and horticulture produce, among others; employs 66 per cent of the country's labour force (the majority being women); and accounts for about 60 per cent of all raw materials for industry.<sup>10</sup> The main agricultural products include maize, cotton, tobacco, wheat, coffee, sugarcane, peanuts, millet, soybeans, beef, sheep, pigs and goats.

Generally, the performance of the sector has been affected by the Land Reform Programme that was implemented in 2000. The main problem is that land reform focused on change in ownership from whites to blacks, rather than on increasing productivity. Out of the 4 500 white commercial farmers, only around 300 remained on the farms after the reform programme.<sup>11</sup> As a result of the change in the ownership of land, which largely fell into the hands of new 'black' farmers who did not have farming capacity, production of major crops fell.

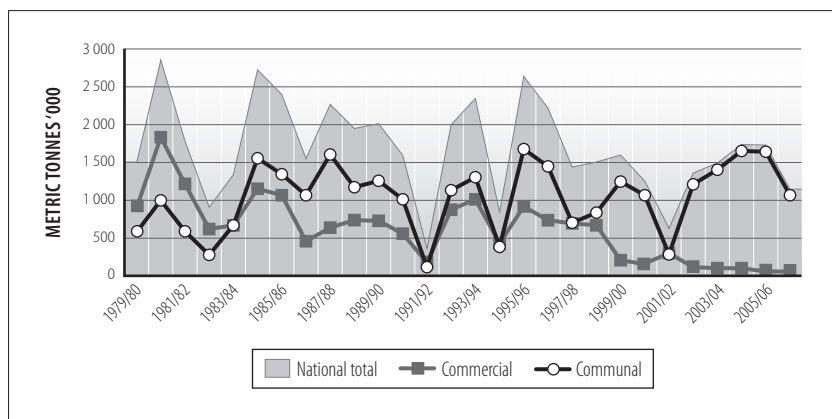
In addition, the sector has suffered a loss of farming skills as land reform displaced experienced commercial farmers and their workers. In 2000, the commercial sector was the largest formal employer (with 320 000 workers, representing 25 per cent of the country's total formal workforce) and contributor to GDP and export earnings in agriculture. However, over 200 000 workers have lost their jobs and total commercial agricultural production has more than halved.<sup>12,13</sup>

Figure 6.9 shows that, prior to 2000, the commercial sector would complement the communal farmers who are the main players in maize production. However, from the 1999–2000 season onwards, the sector registered poor performance. Even though there was a rising maize output



by communal farmers between 2000 and 2008, output is generally lower than that of the period prior to the Land Reform Programme.

**Figure 6.9:** *Trends in maize production by commercial and communal farmers (1978–2006)*



Source: Ministry of Agriculture (2007)

Similarly, wheat production has declined from about 270 000 tonnes in 1998 to 62 000 tonnes in 2007.<sup>14</sup> As a result of decline in output, demand for cereals in the country exceeded the supply. For example, in the 2007–2008 season, domestic availability of cereals for consumption was about 1,287 million tonnes against a total utilisation of 2,339 million tonnes, including 1,928 million tonnes for direct human consumption. The resulting import requirement was thus 1,052 million tonnes, of which the maize deficit accounted for 813 000 tonnes.<sup>15</sup> In 2006, the country incurred US\$114,2 million towards food imports, which increased by 24,5 per cent to US\$142,2 million in 2007.<sup>16</sup> In fact, the country has been importing both wheat and maize since the 2000–2001 season to date, and has been receiving food aid from international humanitarian agencies since the 2002–2003 season.

Cotton production by commercial farmers declined and was produced mainly by small-scale farmers. Tea and sugar production were generally constant during the period under review.

Beef production remains key in Zimbabwe, although much of the infrastructure was destroyed by the fast track land reform. Zimbabwe, which used to be a major exporter of beef to the EU under the ACP beef quota system, lost its quota in 2002 owing to failure to meet sanitary require-

ments in the EU market. By and large, the sector received erratic and below normal rainfall (662 mm) between 2000 and 2005.

More generally, Zimbabwe's agricultural performance can be measured by the per capita value added, which declined from its peak in 2001 to about half that level in 2006. This drop is explained not only by the impact of the fast track land reform programme on commercial production, but also by critical input constraints.<sup>17</sup> Because of these challenges, the government intervened through various schemes to provide inputs and farm implements. However, these were not enough and sometimes did not reach the intended beneficiaries and thus the impact of the intervention was weakened. The government also declared wheat and wheat products, maize and maize products controlled products, and it determined the price of these commodities. This discouraged farming of these commodities, as their production became unviable.

Thus, the agriculture sector generally performed poorly during the period under review, particularly in the critical areas that contribute much to the country's foreign currency, although some sectors did not show a change in performance.

## **The case of maize trade**

As a staple food, maize availability serves to define poverty dimensions. Zimbabwe, once a breadbasket of the region in terms of maize production, is now food insecure and relies on maize imports and food aid from humanitarian agencies to meet the maize requirements. Maize production in Zimbabwe is no longer enough to meet the national requirements. A number of factors, such as the fast track land reform, inadequate supply of inputs (seeds, fertiliser, agrochemicals and tillage assistance or draught power), inadequate agronomy support to ensure applicable skills and techniques used, and frequent droughts owing to climate change, have contributed to low maize productivity.

Policies regarding the marketing of maize have been inconsistent. Before the ESAP in 1990, the Grain Marketing Board (GMB) had the sole responsibility of purchasing and storing grain. The maize price was controlled by government. Following the liberalisation of the economy, the GMB monopoly was removed and private players were allowed to buy maize directly from the farmers. The reduction in maize output, due

to the fast track land reforms by the government, led to the reinstatement of the GMB's monopoly status in the marketing and pricing of maize. Consequently, government control through the GMB in maize marketing became a barrier in the production, distribution and marketing of maize, as it pushed large-scale farmers out of business and forced them to go for other viable cash crops, like tobacco and soya beans. The food security position was compromised with low production and limited imports owing to foreign currency shortages and government restrictions on the operations of NGOs distributing food in rural areas for political considerations.

In 2008, the government relaxed restrictions on maize imports in order to improve the food security situation in the country. The private sector and individuals were now allowed to import grain. Duty on imports of maize is zero-rated for all countries. The government policy position on genetically modified (GMO) maize has been to reject all GMO food. However, it has been forced to relax this position owing to critical levels of food inadequacy in the country, and GMO food is now circulating in the country. However, local scientists are supervising the milling, transportation and distribution of the grain.<sup>18</sup>

Nearly every year, before the new crop is ready for harvest, Zimbabwe and all other SADC countries experience what is often called 'the hungry season' that sets in just before harvest time. During such time most countries worry about possible domestic food shortages, and usually restrict trade by imposing bans on maize exports.<sup>19</sup>

Zimbabwe and Zambia are the largest importers of maize (accounting for almost 60% of the total), almost all of which originates from other SADC countries, as shown in Table 6.27. Most SADC countries import maize from other SADC countries. The exceptions are Mauritius, Tanzania and South Africa, which together account for less than ten per cent of imported maize, the majority of which originates from countries outside of the SADC region.

In addressing the critical national food crisis there are different programmes through which farmers can access subsidised inputs. These programmes include Operation Maguta and the GMB Input Scheme; the Crops and Livestock Input Credit Scheme; the Agriculture Sector Productivity Enhancement Facility; the Farm Mechanisation Programme; the Grain Mobilisation Programme; and crop assessments as an early warning system so as to respond accordingly. In 2008, the country introduced a Ba-

sic Commodities Supply Side Intervention facility, where the government, through the Central Bank, offered financial support to manufacturers of basic goods and services.

**Table 6.27:** *Quantity of maize exported out of and imported into each of the SADC countries in 2003 (in tonnes and as a percentage of the total)*

| Country    | Exports  |       |                 |       | Imports  |       |            |       |
|------------|----------|-------|-----------------|-------|----------|-------|------------|-------|
|            | Quantity |       | Destination (%) |       | Quantity |       | Origin (%) |       |
|            | Tonnes   | %     | SADC            | Other | Tonnes   | %     | SADC       | Other |
| Angola     | 0        | 0,0   | –               | –     | 26 486   | 2,3   | 100        | 0     |
| Botswana   | 986      | 0,1   | 88              | 12    | 60 369   | 5,2   | 100        | 0     |
| DRC        | 113      | < 0,1 | 100             | 0     | 6 951    | 0,6   | 100        | 0     |
| Lesotho    | 0        | 0,0   | –               | –     | 150      | < 0,1 | 100        | 0     |
| Madagascar | 0        | 0,0   | –               | –     | 6 316    | 0,5   | 63         | 37    |
| Malawi     | 54 604   | 5,0   | 36              | 64    | 54 436   | 4,7   | 59         | 41    |
| Mauritius  | 0        | 0,0   | –               | –     | 7 291    | 6,3   | 0          | 100   |
| Mozambique | 18 776   | 1,7   | 100             | 0     | 80 471   | 7,0   | 100        | 0     |
| Namibia    | 8 899    | 0,8   | 100             | 0     | 42 103   | 3,6   | 100        | 0     |
| RSA        | 815 013  | 75,1  | 80              | 20    | 13 386   | 1,2   | 0          | 100   |
| Swaziland  | 640      | 0,1   | 100             | 0     | 354      | < 0,1 | 100        | 0     |
| Tanzania   | 156 193  | 14,4  | 71              | 29    | 77 990   | 6,8   | 38         | 62    |
| Zambia     | 28 080   | 2,6   | 100             | 0     | 191 043  | 16,5  | 95         | 5     |
| Zimbabwe   | 1 382    | 0,1   | 100             | 0     | 521 687  | 45,2  | 100        | 0     |

Source: <http://www.hydrol-earth-syst-sci-discuss.net/5/2727/2008/hessd-5-2727>

## Donor community interventions for poverty eradication

Currently, the country is not receiving assistance from international financial institutions. Instead, it has been declared ineligible for access to resources. Balance of payments support, technical assistance and voting rights (IMF) have been suspended. This is as a result of the strained relations between the country and these institutions. The highest flows were from the World Bank, starting in 1981 and ending in 2002. Funds from the AfDB stopped in 1998, and those from the IMF in 1999.

Owing to the political and economic good governance challenges that have faced the country over the past decade, many western development partners have either scaled down or withdrawn their assistance to Zimbabwe. This has also influenced the country's bilateral creditors to follow suit. Currently, donor activity is limited to social and humanitarian-biased support. Humanitarian assistance is, however, short term, and does not directly contribute to long-term economic development and poverty reduction.<sup>20</sup> The now reduced level of support from donors is mostly limited to food aid and HIV/AIDS activities delivered through non-governmental agencies.<sup>21</sup>

### Health sector support

The poor state of health delivery, which saw an outbreak of cholera claiming about 5 000 lives over the last six months, is testimony to the worsening poverty levels in Zimbabwe. The health delivery system crashed following a series of crises, namely unavailability of basic drugs, lack of functioning public utilities and general labour action by all medical staff. Most of the equipment in hospitals is not functional. Meanwhile, Zimbabwe's grant application for funding for its HIV/AIDS programmes to the Global Fund for AIDS was also rejected on political grounds.

The Danish International Development Agency (DANIDA) suspended the US\$29,7 million health sector support programmes established in May 2000 as a result of the land reform programme. Against the backdrop of an already overburdened health delivery system, many Zimbabweans are now finding it difficult to access affordable health facilities and drugs, particularly anti-retrovirals for HIV/AIDS patients.<sup>22</sup> In the past, the City of Harare's Health Department benefited from various joint research projects with international stakeholders. These projects have since been terminated. The World Health Organization (WHO) moved its regional offices back to Congo Brazzaville, and this move was accompanied by the retrenchment of the Zimbabweans it formerly employed.

### UNDP Zimbabwe PRSP

The Zimbabwe United Nations Development Assistance Framework 2007–2011 provides the basis for poverty reduction interventions for

the UNDP Zimbabwe. The UNDP's work on the strategies and policies for poverty reduction is anchored in three basic principles: the multidimensionality of poverty; the centrality of gender equality; and the critical importance of an integrated approach to poverty reduction in Zimbabwe. The following projects are currently being implemented: the Support to the Poverty Reduction Forum, responsible for the production of the National Human Development Report; the Economic and Financial Management Programme; the MDG-based National Development Strategy; the MDGs; and the NPRS Processes and Poverty Assessment Study Survey II (PASS II).

The main challenge the UNDP is facing at the moment is the difficulty in raising resources for supporting development in Zimbabwe.

### WFP support to Zimbabwe

In 2002, a UN WFP office was set up in Zimbabwe. Its role has become increasingly important, especially with the persistent droughts and floods, and the shortage of inputs, which have impacted negatively on agricultural productivity. Around June 2008, the WFP proposed to assist 1,8 million people through its Protracted Relief and Recovery Programme (PRRO). The WFP will target assistance using the Zimbabwe Vulnerability Assessment Committee (ZIMVAC) assessments and household targeting using community-based selection techniques, dipping into community vulnerability registers. Targeted activities under the PRRO include vulnerable group feeding (VGF), support for home-based care (HBC) and social safety-net based activities, as follows:

- **Health-based safety-net activities.** The WFP will provide a monthly, nutritionally enhanced food ration to food-insecure, chronically ill households as part of HBC support and/or anti-retrovirals.
- **Social-based safety-net activities.** Under this component, support will be given to highly vulnerable households through food-for-livelihoods programmes (e.g. conservation farming) and school-based feeding programmes, including out-of-school children.
- **Emergency vulnerable group feeding.** Poor households in the most vulnerable areas will be provided with free monthly distributions of food for the duration of the anticipated food gap.

One other programme that the WFP runs, together with the Ministry of Health and Child Welfare, is Child Supplementary Feeding. Through this programme the WFP assists an average of 333 409 pre-primary and primary schoolchildren in nine districts.

## Conclusion

Zimbabwe has extensive but varied experience with trade liberalisation in autonomous, bilateral regional and multilateral context. However, most of the trade reforms have suffered from poor policy implementation, bad economic governance, and policy reversals and inconsistency, leading to more poverty.

Zimbabwe has failed to derive benefits from SADC trade liberalisation, mainly as a result of its own internal problems that effectively handicapped local producers through a series of anti-export policies. The pervasive price controls and, in particular, foreign currency surrender requirements disabled the viability of export industries. The protracted foreign currency shortages that the country has been facing since 2000 have crippled the operations of industry, which rely heavily on imported inputs for their daily operations.

Further, the negative perception by the international community towards Zimbabwe played a significant role in shaping the position the country took when implementing the SADC TP. This has adversely affected vulnerable groups and the economy in general. The significant progress that the country had made in the development of infrastructure, health and social service delivery systems has been reversed through limited or withdrawn support, hence the country could not strategically position itself in the region.

Decline in the key sectors of the economy in the last seven years have occasioned high unemployment, an inefficient health delivery system, reduction in FDI and the drying up of balance of payments support.

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# 7

## **Complementary SADC Programmes to Address Poverty Reduction**

Evangelista Mudzonga

THE MAIN OBJECTIVE OF THIS CHAPTER IS TO PROVIDE A HOLISTIC ANALYSIS to the SADC approach of addressing regional poverty. Trade liberalisation measures alone cannot reduce poverty; hence, SADC has several other programmes that complement each other. Accordingly, this chapter provides a brief analysis of the progress and status of these programmes and their possible impact on poverty reduction, and how these support trade liberalisation. The main programmes analysed here include social and human development, HIV, health, education, energy, and transport and communication.

### **SADC health programme**

The SADC integration agenda accords priority to social and human development, including fostering cooperation in addressing health problems through a comprehensive regional health programme.<sup>1</sup> The region has come up with policy documents in order to achieve its objectives on health, and these are the Health Policy Framework, the SADC Protocol on Health, the Regional Indicative Strategic Development Plan (RISDP), and the SADC Pharmaceutical Programme. The health programme includes policy frameworks broadly in the areas of malaria control, HIV/AIDS, tuberculosis, care and support for orphans and other vulnerable children and youth, sexual and reproductive health, and migration and management of human resources for health, in particular the brain drain and skill circulation in the region. The major goal of the SADC health sector is to attain an acceptable standard of health for all citizens by promoting,

coordinating and supporting the individual and collective efforts of the member countries. The health policy envisages health for all member states by 2020 based on the primary health care strategy. This objective is stressed in the Health Protocol and includes that the region will attain health for all through better access to medicine. It also promotes equity and the rational use of medicines.

The Pharmaceutical Programme arose from Article 29 of the SADC Health Protocol and was designed to allow the region to effectively fight diseases that are of public concern, for example TB, malaria and HIV/AIDS. The programme will be implemented through a pharmaceutical business plan. To this end, the SADC Secretariat developed an Action Plan for 2008–2009 as part of the implementation of the business plan. In addition, financial resources amounting to US\$1.5 million for the 2008–2009 financial period have been mobilised from the African Development Bank (AfDB).

The Secretariat also received funds amounting to US\$170 000 from the World Health Organization Regional Office for Africa (WHO–AFRO) fund to facilitate the development of Terms of Reference and the implementation of consultancies during 2008–2009. The consultancies focused mainly on assessing the capacity of Medicines Regulatory Authorities and determination of centres of specialisation to cater for training needs, the development of guidelines for regional pooled procurement of essential medicines for HIV and AIDS, TB and malaria, and the development of guidelines for Regional Production of Essential Medicines, including African traditional medicine.<sup>2</sup>

In February 2008, the region sent a delegation to China whose mission focused on the following: policy, legislative and regulatory structures and systems; traditional health care systems; research and production; education and training; and conservation and sustainable development. China is keen to develop SADC's traditional medicines.

The region recorded progress in the implementation of key strategic health programmes, particularly in the area of Prevention of Mother to Child Transmission (PMTCT) and Anti-retroviral Therapy (ART) programmes.

In the area of malaria, member states continue to scale up implementation of their malaria programmes. To date, 12 member states are using indoor residual spraying as a prevention strategy and have increased the provision and use of long-lasting insecticide treated nets.<sup>3</sup>

As part of health education and advocacy, the region annually commemorates the SADC Malaria Day on the second Friday of November. The region also commemorates the SADC Healthy Lifestyle Day, which was first introduced in February 2009 as it recognised the importance of addressing non-communicable diseases in recognition of the increasing burden they impose on the region.

SADC is, however, facing challenges in addressing outstanding issues in improving provision of health services and meeting global and continental commitments, particularly those related to universal access to prevention, treatment, care and support for all diseases and conditions. The importance of health research to inform and design evidence-based interventions, as well as the development of new prevention technologies and new treatment are also recognised. To this end, ministers approved a report on clinical trials aimed at addressing challenges and building capacities for conducting clinical trials in the region.

## **SADC HIV programme**

The SADC region is at the epicentre of the HIV/AIDS pandemic, with 67 per cent of infections in sub-Saharan Africa. HIV prevalence in the SADC region varies from country to country, with three countries having HIV prevalence rates for adults aged 15 to 49 exceeding 30 per cent, while three other countries have prevalence rates below six per cent.<sup>4</sup>

HIV epidemics endanger the existence of humanity. The disease has reduced life expectancy and increased morbidity and orphans. Therefore, mitigating its effects has been at centre stage in the region. The impacts of HIV/AIDS are far reaching, starting at household level through organisational to national level, and they threaten to increase poverty. Responses to the epidemic in SADC have been both at national and regional levels.

At the national level, intervention is through prevention, treatment and mitigation. The SADC Secretariat has reported that prevention is, however, not adequately done, treatment is increasing but not fast enough in most member states, and mitigation has experienced limited successes, especially for orphans and vulnerable children (OVC). Moreover, the national responses are not the same.

At the regional level, SADC is guided by the following principles to respond to the pandemic: multisectoral, subsidiarity, prioritisation, gender

mainstreaming, comparative advantage, complementary, human rights and collaboration. The region mainly focuses on policy development and harmonisation, capacity building and mainstreaming, networking and collaboration, resource mobilisation, monitoring, and evaluation. The SADC Secretariat has reported that regional responses have been making some inroads in the fight against the epidemic in recent years. Under the policy, development and harmonisation in the region are guided by several documents, namely, the Maseru Declaration of 2003, the SADC Strategic Framework on HIV and AIDS, the SADC Code of Conduct on HIV and Employment, the Regional Business Plan 2005–2009, the SADC Framework on Best Practices, the SADC Framework on Coordination, the SADC STI Framework, and the People Living with HIV/AIDS (PLWHA) Advocacy Framework (Modisaotsile).

At the international level, the region has made a commitment to deal with the pandemic through allegiance to the Abuja Declaration and Plan of Action, the New Partnership for African Development (NEPAD), the Millennium Development Goals (MDGs) and the UN General Assembly Special Session on HIV/AIDS. The region also gets assistance from the international community through, among others, the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria, and President Bush's Emergency Plan for HIV/AIDS Relief (EPAR), although there is red tape around the disbursement of these funds, which counters the quick response to the epidemic.

The member states have been facing challenges both at national and regional levels. Nationally, the main challenges have been lax policy formulation, where the strategic plans were not evidence based, limited capacity to mitigate the epidemic effectively, weak local community response, and coordination challenges among the relevant stakeholders. Regionally, the monitoring and evaluation have been weak and member states have varied levels of development, and the region has 'no teeth' to ensure the enforcement of standards by the member states.

The region needs to formulate national policies based on evidence on the ground. Member states can learn from each other through information sharing with countries located outside sub-Saharan Africa, and can also take advantage of trade-related aspects of intellectual property rights (TRIPS) flexibilities under the World Trade Organization (WTO). It needs to ensure the enforcement of standards through penalties for those members who do not comply with regional requirements.

## **SADC education programme**

Education programmes fall under the Directorate of Social and Human Development and Special Programmes (SHD SP), whose overall objective is 'to contribute to the reduction of human poverty and to improve the availability of educated, well informed, skilled, healthy, flexible, culturally responsive, productive and efficient human resources for the promotion of SADC's equitable economic growth, deeper integration and its competitiveness in the global economy'.

The SADC Protocol on Education and Training entered into force in July 2000. The main objectives of cooperation in education and training between SADC countries as stated in the protocol include:

- To develop and implement a common system of regular collection and reporting of information by member states about the current status and future demand and supply, and the priority areas for provision of education and training in the region.
- To establish mechanisms and institutional arrangements that enable member states to pool their resources to effectively and efficiently produce the required professional, technical, research and managerial personnel to plan and manage the development process in general and across all sectors in the region.
- To promote and coordinate the formulation and implementation of comparable and appropriate policies, strategies and systems of education and training in member states.
- To develop and implement policies and strategies that promote the participation and contribution of the private sector, non-governmental organisations and other key stakeholders in the provision of education and training.
- To promote and coordinate the formulation and implementation of policies, strategies and programmes for the promotion and application of science and technology, including modern information technology and research and development (R&D) in the region.
- To work towards the reduction and eventual elimination of constraints to better and freer access by citizens of member states to good quality education and training opportunities within the region.
- To work towards the relaxation and eventual elimination of immigration formalities in order to facilitate freer movement of students and

staff within the region for the specific purposes of study, teaching, research and any other pursuits relating to education and training.

- To promote policies for the creation of an enabling environment with appropriate incentives based on meritorious performance, for educated and trained persons to effectively apply and utilise their knowledge and skills for the general development of member states and the region.
- To promote the learning of English and Portuguese as the working languages of the region.
- To achieve gradually and over a period not exceeding twenty years from the date of entry into force of this Protocol, the implementation of the ultimate objective.
- To progressively achieve the equivalence, harmonisation and standardisation of the education and training systems in the region, which is the ultimate objective of this Protocol.

Regional cooperation activities under the education programme include policy development, basic education, distance education, higher education and training, R&D, life-long education and training, publishing and library resources. Regional projects in education include the SADC Inventory of Regional Training Institutions; Funds for Studies and Experts in the Human Resources Development Sector; the SADC Scholarships and Training Awards Programme; the SADC Vocational Education and Technical Training Programme; Harmonisation, Rationalisation and Strengthening of Education and Training Systems in the Southern African Development Community; the SADC Intra-Regional Skills Development Programme; the SADC Initiative in Educational Policy Development, Planning and Management; the SADC Distance Education Programme; the SADC Science and Mathematics Programme; Training for SADC Organs; the establishment of two regional Centres of Specialisation for Public Sector Administration and Management (CESPAM); capacity building for the Human Resources Development Sector Coordinating Unit; and senior managers training in road traffic and transportation of the SADC region.

The education programme has three priority areas, namely Education Management Information Systems and Quality Assurance; Open and Distance Learning; and the mainstreaming of HIV and AIDS in the education sector.

According to Kritzinger-van Niekerk and Pinto Moreira,<sup>5</sup> SADC has made great strides in achieving universal basic education. Most SADC member states have net enrolment rates at primary education within the range of 80 to 100 per cent. Illiteracy rates have fallen over the last three decades. In 2000, SADC recorded the lowest level of adult illiteracy rates (27%) as compared with those of other regional arrangements in sub-Saharan Africa.

The region is also well endowed with a high level of educational institutions. It is estimated that there are about 90 universities and technikons, most of them concentrated in South Africa (21 universities and 15 technikons), Zimbabwe and Tanzania. The region has also seen the establishment of a number of private higher education and training institutions, mainly in these three countries. In 1999, 564 000 students were enrolled, with 386 000 being full time.

Progress has been achieved in putting in place institutional structures for education programme implementation. Four out of the seven committees have been established: Technical Committees on Scholarships and Training Awards; Accreditation and Certification; Basic Education; and Distance Education. Moreover, the Human Resources Development (HRD) Sector Coordinating Unit coordinates the implementation of the Sectoral Programmes of Actions, focusing on education, training and HRD.

The paper also reveals that the performance of secondary and tertiary levels of education lags far behind the potential of the region. Another problem that SADC countries face is the gender disparity in enrolments. In all countries, school enrolment ratios for women are much lower than those of men. In Lesotho, fewer female students are enrolled in pure sciences and science programmes. In Malawi, the female student population has never exceeded 28 per cent, and female enrolments in the science subjects are low despite the affirmative action at the University of Malawi. In most SADC countries women are underrepresented in certain fields of high and technical education such as science, management and engineering. The consequence of this gap is the scarcity of women in the labour force in certain positions and disciplines.

Education and training in the SADC region still face problems and challenges that affect a growing number of students; the low level of existing infrastructure; instruction and learning material, and qualified and motivated trainers/teachers; gender inequality; the social, economic and



financial impact of HIV/AIDS on the education and training systems; and the weak links between educational and training programmes and labour markets.

On quality assurance, the region has been making considerable efforts both as individual member countries and as a group. In terms of higher education, countries have Tertiary/Higher Education Councils/Commissions that regulate and promote quality in higher education. At regional level, various initiatives that are being undertaken to strengthen quality assurance include bilateral cooperation and collaboration between the Tertiary/or Higher Education Councils in Botswana, Namibia and South Africa, which involve sharing of information and expertise, capacity building and joint research activities.<sup>6</sup> The World Bank is also assisting African universities with this component.

The SADC Education Knowledge Management Systems as an information-sharing platform amongst member states is online. The African Union Commission (AUC) is assisting the region with its Education Management Information Systems (EMIS) that is aimed at improving the availability of accurate and updated education data to ensure evidence-based planning, policy formulation and monitoring and evaluation.

The region has a Care and Support Initiative for teaching and learning, as part of the implementation of the 2005 Maseru Declaration on HIV and AIDS, which calls for a multisectoral response to mitigating and preventing HIV and AIDS in the education sector. However, these initiatives are fragmented, ad hoc and lack a comprehensive system-wide approach and framework to yield the desired results. The SADC Secretariat, in partnership with UNESCO, UNICEF and Media in Education Trust, developed a proposal for a comprehensive approach to health promotion through the integration of care and support for teaching and learning, which was presented for approval by Ministers of Education at their meeting in Lusaka, Zambia in July 2008.<sup>7</sup>

## **SADC energy programme**

The demand for energy in the SADC region exceeds the supply, thus leading to serious load shedding. In 2008, the region had an installation capacity of 54 742 megawatts (MW), of which only 46 392 MW were available. This shortage is a result of a lack of investment in the energy sec-

tor, an increase in population and the expansion of industries, for example new mining companies that have been established in the SADC region in the last few years. The region faces financial challenges to bridge this gap.

The energy sector, together with water, communications and meteorology, as well as transport, falls under the supervision of the SADC Directorate of Infrastructure and Services (DIS). The DIS's mission is to facilitate, through strategic expertise, the provision of sufficient, integrated and efficient infrastructure and related services to support regional integration and poverty reduction. The overall objective of the energy sector is to ensure the availability of sufficient, reliable, least-cost energy services that will assist in the attainment of economic efficiency and the eradication of poverty, whilst ensuring the environmentally sustainable use of energy resources.<sup>8</sup> The energy sector is driven by several instruments, of which the RISDP has centre stage. These are scaling up access to modern energy, an energy cooperation policy and strategy, a regional energy policy, an energy activity plan, a rural electrification strategy, and the protocol on energy.

The SADC Energy Protocol was signed in 1996 and came into force in 1998. Its main objectives are to

- harmonise national and regional energy policies, strategies and programmes;
- cooperate in the development and utilisation of energy and energy pooling to enhance security and reliability;
- jointly develop energy sector human and institutional capacity; and
- promote standardisation where appropriate in the energy sector.

To address energy shortages, new generating capacity of 1 810 MW was commissioned in 2007, but the shortage will continue until 2013, when new projects will be commissioned. In 2008, the Southern African Power Pool (SAPP) had projects that required US\$46,4 billion. However, progress has been made on the Western Corridor Project (WESTCOR). At the Summit of SADC Heads of State and Government in August 2007, it was noted that the existing infrastructure in SADC needs rehabilitation and new investments to meet the region's current objectives of deeper regional integration.

The priorities for the SADC region in energy include overcoming the diminishing installed surplus capacity; strengthening the operations of the

Energy Division; deepening the integration process through implementation of the Energy Protocol and the Energy Activity Plan; providing SAPP on the implementation of the RISDP and the SAPP Plan; facilitating the establishment of a conducive environment for investment in the power sector through the creation of national electricity regulatory authorities in the SADC member states and a Regional Electricity Regulatory Association (RERA); facilitating and coordinating the establishment of regional stakeholder associations in the areas of petroleum, coal and natural gas, new and renewable sources of energy; joint programming of projects with international and continental bodies dealing with energy issues, for example the African Energy Commission, the World Energy Council, the Africa Energy Information Forum, UN, and so forth; and resource mobilisation in partnership with potential international cooperating partners (ICPs) and private sector investors.

The region also has the following energy projects and programmes: transmission expansion plans under the SAPP, WESTCOR, the SADC Regional Energy Planning Network (REPN); the Programme for Biomass Energy Conservation in the SADC Region (ProBec) and Biofuels Initiatives; the Regional Petroleum and Gas Association (REPGA) and the SADC Biofuels Task Force.

The level of electrification is one of the human development indicators under the UNDP. This means that the extent of a country's access to electricity is an indicator of its national development. Given that the majority of the population in the SADC region is in the rural areas, member states have committed rural electrification programmes.

Rural electrification for the SADC member states is enshrined in their national energy policy documents. In Botswana, for example, rural electrification focuses on promoting social and rural development by powering productive use in agriculture and small enterprises. The policy objective includes improved access to electricity through village clustering, network extension to rural areas, and financing modes for rural electrification to stimulate rural development and reduce rural poverty.<sup>9</sup> Besides the government's efforts, donors such as the Swedish International Development Co-operation Agency (Sida) and Danish International Development Agency (DANIDA) have been involved in some of Botswana's rural electrification projects. Table 7.1 gives a comparison of rural electrification in four SADC countries based on the source of commitment to electrify rural areas, funding modalities and the agencies responsible for rural electrification.

Table 7.1: Rural electrification

|                                                                                    | Botswana                                                                                                                                                                                                                                                                                 | Namibia                                                                                    | South Africa                                                                                                                                                                                                                                                                                                                                 | Zimbabwe                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Place of rural electrification in national energy policy</b>                    | Policy objectives include improving access to electricity through village clustering, network extension to rural areas and financing modes for rural electrification<br><br>Rural Electrification by Grid Electrification (REGI) to stimulate rural development and reduce rural poverty | Off-grid energisation master plan for Namibia 2007<br><br>Electrification master plan 2002 | Among the five objectives of the energy policy White Paper are access to affordable energy services and promoting access to free basic electricity for poor households<br><br>Government wants universal electrification by 2010<br><br>Grid programme started in 1994<br><br>New government set target of 2.5 million households connected. | Two of five objectives of national energy policy address rural development and development of small and medium enterprises<br><br>Sectoral objectives for electricity specify electrification of viable rural centres under an accelerated electrification programme<br><br>Energy for rural development strategy |
| <b>Funding modalities for rural electrification<br/><br/>How funds are handled</b> | Rural Electrification Collective Schemes is the financing policy<br><br>Required deposit fell from 10% in 1997 to 5% in 2000, with a 15-year term, with interest prime +0.5%                                                                                                             | Ministry of Mines and Energy concessional loans                                            | Free basic services policy encompassing free basic energy (FBE) – 80% is paid by the operational costs and 20% is paid by the customer.                                                                                                                                                                                                      | Levy of 6% on tariff – consumer pays levy to utility, which passes it to the Rural Electrification Agency                                                                                                                                                                                                         |
| <b>Agency responsible for rural electrification</b>                                | Botswana Power Corporation administers loan scheme and implements rural electrification on behalf of government                                                                                                                                                                          | NamPower's subsidiary<br><br>Premier Electric, Regional Electricity Distributors           | ESKOM / Department of Minerals and Energy                                                                                                                                                                                                                                                                                                    | Rural Electrification Agency                                                                                                                                                                                                                                                                                      |

Source: Mapako et al, 2007

While all these countries have rural electrification programmes, the implementation approach, for example on the areas to be electrified, sources of finance and the beneficiaries of the programmes, differ widely. The levels of development among these countries are also different. In its policy objectives, South Africa aims for free basic electricity (FBE) for the poor. The government is also geared for universal electrification by 2010. The grid electrification programme that started in 1994 had a target of connecting 2,5 million households. The free basic services policy encompassing FBE provides 50 kWh free energy per month to households in an effort to provide poor households with free energy to cover basic needs.<sup>10</sup>

There is limited harmonisation of the SADC individual policies on energy, which is in contrast to one of the objectives of RISDP, partly due to the dates when these documents were drafted. In addition, the documents are silent on international poverty reduction initiatives, such as the MDGs.

In order to reduce poverty through energy supply, the SADC region has to implement the roadmap that was adopted by the SADC Energy Ministerial Task Force on 21 February 2008 in Gaborone, which is aimed at accelerating the region from the power shortage, as well as managing the demand and supply of energy.

## **SADC transport and communication programme**

The objective for the transport and communication sector is to facilitate the regional integration of the SADC region. Infrastructure in general and transport in particular are critical determinants of the international competitiveness and general efficiency of any economy. Opening up investment and business opportunities to generate employment and incomes and, therefore, to alleviate poverty requires efficient infrastructure.<sup>11</sup>

Transport and communication costs in the SADC region are relatively higher than its competitors. Several member states are landlocked and hence face a comparative disadvantage where import costs become prohibitively high, while it cannot aggressively push its volumes of exports out of the region.

In order to deal with these challenges the region came up with a binding commitment to achieve SADC's defined objective for this sector. This was through the SADC Protocol on Transport, Communications

and Meteorology, which came into effect in July 1998. The protocol covers transport (integrated transport, road infrastructure, road transport, road traffic, railways, maritime and inland waterway transport, and civil aviation), communications (telecommunications and postal services) and meteorology.

The protocol has the following milestones: development of regional policy and regulatory framework; provision of universal service; deployment of relevant infrastructure; network provision and maintenance; and capacity building.<sup>12</sup>

The protocol's objectives on telecommunication are to develop a national telecommunication network that allows for the provision of reliable, effective and affordable telecommunication services, provide high quality and efficient services, achieve regional universal service, and enhance inter-connectivity in the region and globally. In order to facilitate telecommunication, almost every SADC member had to form autonomous regulatory boards which will go on to form a regional board called the Telecommunications Regulators Association of Southern Africa. Similar initiatives took place in the civil aviation and ports authorities. The telecommunication reforms noted here introduced competition in both the fixed and mobile segments. There has also been considerable pace in technological development in this sector.

Under the protocol, the region is engaged in a number of projects aimed at improving its telecommunication infrastructure and information and communication technology (ICT) training. These consist of the construction of the Eastern and Southern Africa Optical Cable that will connect to southern Africa, the Far East and South East Asia and the Middle East, thus facilitating SADC and COMESA connectivity to the Global Information Infrastructure.

The region underscores the significance of ICT as it enhances socioeconomic development and regional integration. The developments in SADC ICT are informed by the MDGs, the World Summit on the Information Society, the African Information Society Initiative, the African Regional Action Plan on the Knowledge Economy and the SADC RISDP. The region also has an ICT Declaration. According to Mamelodi-Onyadile (2008),<sup>13</sup> the main challenges facing the region include the slow implementation of the ICT Declaration as well as ICT policies by the member states, different levels of development of the SADC member states, and lack of funding to fully develop the sector.

## Commonalities and divergences of national experiences and lessons for sustainability and equitability in economic growth

Most of the programmes on poverty as well as trade liberalisation have not been sustainable as they fail to deliver and ensure equitable income distribution. Drawing out commonalities and divergences in the programmes may provide lessons for ensuring the sustainability and equitability of both trade liberalisation and vice versa.

The following are the main features common to the Angola, Lesotho, Malawi, Mozambique, Zambia and Zimbabwe trade liberalisation and poverty reduction programmes:

- There are indications that economic growth that relies heavily on one dominant sector (resources) in SADC countries may not be sustainable. When income is concentrated in one sector, the country's income inequality becomes a catalyst for increased poverty if the country has no policy for the redistribution of income.
- Agriculture is the mainstay of the economy and is the key driver of economic performance in the SADC region. Agriculture is also labour-intensive and employs the bulk of the labour force in the region. Agricultural production remains subsistence in nature and is dominated by family farms. Lack of infrastructure and inputs, coupled with low labour productivity, have resulted in low yields per hectare in the region.
- Fertiliser and seed subsidies to maize farmers in SADC are deemed the poverty reduction programme with the highest impact. Another common high impact intervention relates to microfinance for small-scale agricultural production. The impact of agricultural trade liberalisation will depend on the extent to which the prices of inputs are affected, with reductions in input prices being more likely than reductions in output prices to affect poor households in rural and urban areas equally.
- Liberalisation schedules in SADC countries have been done at three levels: autonomous liberalisation, bilateral and regional trade agreements, and multilateral agreements.
- Pre-existing bilateral relationships have been forged over time and will continue to play an important role in determining intra-regional trade and industrial organisation in the region. The agreements have the same purpose and offer the same benefits under the same origin conferring criteria, which is much better than the current SADC FTA

rules of origin, which are cited as being too restrictive and therefore a hindrance to regional trade.

- Most countries are implementing the SADC TP and have back-loaded or excluded agricultural goods from liberalisation. This has compromised the impact of the FTA on poverty.
- SADC market access is marginally used because of internal supply-side constraints, such as poor roads and inadequate marketing infrastructure. The countries are also constrained by lack of production capacity and competitiveness, and complex rules of origin in export markets.
- Among the most positive results of the expansion of SADC trade have been the increase in consumer choice, a consistent and reliable supply of goods to consumers, and the creation of price stability in both national and regional markets. There are good quality products on the market for the consumer, providing consumers with a wide choice of shops and goods.
- During the period 2000–2008, SADC countries recorded an upsurge in capital and investment inflows from within the SADC region, more especially South Africa, in the retail, banking, mining, construction, telecommunication, agriculture, hotel and tourism sectors. These resulted in infrastructure development, which has been accompanied by the expansion of SADC property developers who are building shopping centres to house chain stores.
- A broad range of policy reforms in the agricultural sector was introduced to stimulate growth and improve the performance of the agricultural sector in order to reduce poverty and enhance household food security in SADC countries.
- Benefits accruing to consumers due to the implementation of the SADC FTA are, however, compromised by various non-tariff barriers to exports and imports, such as cumbersome customs administration procedures, long delays at border posts, corruption, and failure to meet SPS standards, among others.
- While the poverty situation has improved since 2000, no direct link can be made to the implementation of the SADC TP, as countries were, at the same time, implementing a wide range of economic and trade reforms within autonomous, bilateral, regional and multilateral trade liberalisation.
- China and South Africa are major emerging economies that are common and influential in SADC's economic relations. Investment



from these countries is primarily concentrated in transport and infrastructure.

- The main exports to SADC are products in which each country has competitive advantage. These products may not have a direct impact on poverty reduction in the destination countries, but would assist in poverty reduction in the source country if export receipts were shared through increased employment or redistributive mechanisms through the public sector.
- Growth opportunities created by AGOA differ within SADC countries. There is growing trade in manufactures in Malawi and Lesotho in the form of clothing, mainly due to AGOA and bilateral agreements with South Africa, whilst some countries like Zimbabwe are not beneficiaries of AGOA.
- Donors and aid play different roles in SADC countries' efforts to reduce poverty.

## Notes and references

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# 8

## Conclusions and policy recommendations

Moses Tekere

### Conclusions

THE MAIN CONCLUSION OF THE STUDY IS THAT THE SADC REGION HAS RECORDED impressive growth in its trade and economy in general over the past decade. However, its linkage between trade liberalisation and growth and poverty reduction is not automatic, but multiple, complex and indirect. Accordingly, three sets of conclusions are drawn from the findings:

- The SADC FTA has had no significant impact on poverty eradication.
- The SADC FTA has had a direct and indirect positive impact on poverty eradication.
- There are more challenges related to income distribution.

### The SADC FTA has had no significant impact on poverty eradication

First, more trade is associated with lower levels of poverty, as evidenced by Malawi and Mozambique, which experienced both increasing trade and a reduction in poverty between 2000 and 2008. While between 1990 and 2000, Zambia and Malawi experienced an increase in the poverty rate and a decrease in trade, between 2000 and 2008 the reverse situation was true, mainly due to other factors like good economic governance and high economic growth resulting from an upsurge in commodity exports. So, the evidence from these countries also supports the notion that more trade is positively associated with poverty reduction, while less trade is associated with higher levels of poverty. The unanswered question that arises from this study is the link between the level of trade and poverty-reducing products.

Second, countries implementing the SADC FTA have excluded sensitive products from tariff liberalisation. These are dominated by agricultural products, thus limiting the impact on poverty reduction. Primary data evidence proves that the countries protected sectors with national development interests and opened up sectors that benefit consumers and local producers. As the countries have high internal tariffs on agricultural products, there is fear arising from the study of increasing poverty, given the supply-side constraints within the region. There is no clear link between trade liberalisation and poverty eradication per se. Trade liberalisation was not designed for poverty reduction, as products that reduce poverty, for example maize, are not liberalised in the 85 per cent substantially all trade, but reserved in most countries as sensitive products. There is no complete and free maize trade liberalisation in the SADC region, as countries still invoke export bans on maize, even though maize is the key poverty-reducing product consumed in the region.

### **The SADC FTA has had a direct and indirect positive impact on poverty eradication**

Notwithstanding the lack of liberalisation on the maize trade, the FTA has impacted positively on poverty reduction, as the inflow of foodstuffs has increased within SADC, particularly from South Africa. Specifically, perceptions as regards poverty levels are that poverty has reduced in the region during the period 2000 to 2008; however, the extent of reduction should show a correlation with the country's involvement in the SADC FTA for the study to conclude that the FTA has had a significant impact on poverty eradication.

There appears to be a positive relationship between trade, growth and poverty reduction, which would need to be proved from primary data collected, particularly growth in investment, infrastructure and employment. If a positive link between the change in trade volume and growth rates can be established through the data analysis, then a conclusion and strategies can be drawn on the study linking trade liberalisation to poverty eradication. This should be a matter of concern to policy makers in the nations and the region.

Careful country intervention, such as the fertiliser subsidy initiatives the Malawian government has undertaken in the tobacco, maize and cotton sectors, would ensure that the benefits of the FTA trickle down to

the poor. New indirect opportunities for poverty reduction are arising, even within agriculture, particularly in untapped agricultural potential for biofuels in Angola and Mozambique. There is evidence in the study that growth in both subsistence and commercial agriculture has a greater impact on poverty reduction than growth in other industries, as most of the poor are involved in agricultural production.

Regardless of the findings, the country studies present a much more complex picture of the changes that trade liberalisation is likely to trigger and of the resulting consequences. It seems that the effects on the poor may be country and situation specific, and require a strong social welfare environment to ensure that the majority of the poor benefit. Although the SADC Trade Protocol (TP) is being implemented in the region, there is a big knowledge gap requiring publicity on the implementation of the protocol, as many are not using the instrument where it is appropriate and opting to use the Common Market for Eastern and Southern Africa (COMESA) or bilateral trade instruments, where applicable.

The general conclusion in this chapter is that SADC countries have experiences with trade liberalisation in the multilateral, regional, bilateral and autonomous context, yet there is no conclusive evidence linking these initiatives with poverty reduction. This is mainly due to the faulty design of the trade liberalisation programmes, imperfect market and supply-side constraints at national level, and challenges facing the region. The pattern of trade liberalisation under the SADC TP is not designed to address poverty reduction, as most products pertinent for poverty reduction, in particular food products, still remain outside the scope of liberalisation. The regional markets are characterised by the domination of a few suppliers, while small and medium enterprises (SMEs) face serious and numerous problems in terms of participating both in the national and regional markets. Further, the response in terms of consumption and production to trade liberalisation has been limited owing to a number of supply-side constraints and non-tariff barriers.

## The challenges

It is noted that poverty in the countries under study remains one of the greatest challenges due to the inherent flows in social income distribution in the region, as well as lagging behind in terms of implementation

to achieve the Millennium Development Goals (MDG) targets. SADC is good at making policies at regional level, but these are often not implemented nationally. The countries continue to register poor socioeconomic conditions despite being well endowed with natural resources such as land, gold, diamonds, platinum, copper and oil. The SADC member states continue to report relatively low rates of economic growth compared with the rest of the world, owing to the limited implementation of commitments. These low rates of economic growth are attributed to factors which, among others, include lack of foreign direct investment (FDI), economic mismanagement, corruption, export of primary products, severe and repeated droughts, political instability, civil wars, and the prevalence of the HIV/AIDS pandemic and other infectious diseases.

Owing to the challenge of the high incidence of poverty, the countries under review have been compelled to make poverty reduction the central objective of national and regional developmental policies through country-specific poverty reduction strategies under the PRSPs framework.

Most SADC member states displayed a cautionary approach during the implementation of the SADC TP; most back-loaded their tariffs with the exception of Angola, which has not yet implemented the SADC FTA. This means that they were protectionist in their approach and feared the negative implications of opening up.

The SADC countries under study are agro-based and agriculture is the major role player with an impact on poverty reduction at household and national levels. High impact interventions like timely, well-supported and targeted assistance to farmers in terms of inputs such as maize seed and fertiliser have the potential to increase production and, in turn, reduce poverty. A deliberate budget increase of 57 per cent to support the national fertiliser subsidy was introduced, for example, in Malawi in the 2008–2009 budgets. However, there is a lack of support in terms of inputs, and where there is support it is not advanced in time and in some cases it is diverted to the wrong recipients. Findings from case studies of the effectiveness of the Fertiliser Support Programme in Zambia and Malawi show that communal or subsistence agricultural activity by rural communities can contribute significantly to poverty reduction.

In terms of SADC intra-trade, South Africa is the evidenced beneficiary, as trade from the four countries is skewed in its favour. South Africa is an important importer and exporter to all the countries in question. With the limited capacity of SADC countries to produce tradable goods,

the question will be whether the SADC FTA will assist member states to increase their supply-side capacity.

Following the adoption of national poverty reduction strategies in four countries since the 1990s, living standards are improving gradually but are still low by international standards. There is also evidence of better poverty reduction in rural areas compared to urban, but there is no evidence of this poverty reduction being linked to the role of regional integration. Individually, countries have also put together comprehensive poverty reduction strategies that similarly contribute to poverty alleviation and ensure food security is common in the case studies.

## Recommendations

Accordingly, to enhance the poverty reduction effect of SADC regional trade integration, the following recommendations are put forward for implementation at national, regional and multilateral levels.

### At country level

#### *Continued harmonisation of National PRSPs with SADC RISDP and other developmental plans*

The study established that in some areas the poverty reduction and trade liberalisation targets, sequencing and timeframes between the national, regional and international programmes were not necessarily coherent. Accordingly, it is strongly recommended that in designing and implementing Poverty Reduction Strategy Papers (PRSPs), countries need to ensure that these programmes are harmonised with the SADC Regional Indicative Strategic Development Plan (RISDP) in particular, and with other appropriate international developmental plans, so that there are concerted, coordinated and synergised efforts in the fight against poverty.

#### *Incorporation of poverty priorities in the national budget*

The study established that there is no congruence between the PRSPs and the budget pronouncements in a number of cases. In this respect, and for

poverty reduction efforts to have a meaningful effect, governments need to make sure that the resource requirements of poverty reduction initiatives are incorporated in the national budget regularly. Once the budget shows that the government is prioritising such initiatives on poverty, cooperating partners would easily join in to assist.

### *Commitment to implementing the SADC TP*

To address the variations in the implementation of the SADC TP, which affect the effective utilisation of the new trade regime, the following measures are proposed:

- Countries should expedite the simplification of the rules of origin, which are constraining trade with SADC.
- Countries should also implement the recommendation made in 2004 that special provision be made for small consignment traders, so that they too benefit from the trade preferences.
- Immediate action is required to remove tariffs on all goods that are of interest to the poor, as such a move would immediately reduce their cost and make it easier for the poor to access such goods.
- Generally, SADC countries with outstanding implementation obligations need to show a commitment to implementing the SADC TP through concrete actions in liberalising intra-SADC trade and increasing their capacity to supply goods and services in the region.

### *Countries should eliminate all forms of trade restrictions and non-tariff barriers*

In trying to protect the domestic infant industry through trade restrictions and domestic policy interventions, countries usually create a bias against exports that prevents the achievement of otherwise attainable rates of growth in export earnings. It is strongly recommended that all forms of restrictions and NTBs should be eliminated, except in very exceptional circumstances where such restrictions will be time bound without room for extension to enforce the achievement of the intended objective within agreed time frames.



*Strengthening the role of agriculture in poverty reduction*

Given that agricultural growth has the largest potential impact on poverty reduction, as a major source of employment and livelihood as well as a major contributor to GDP for most SADC countries, it is imperative to make agricultural production an integral part of PRSPs. Accordingly, there is a need to address the challenges bedevilling agriculture through increased investment in agriculture, with special emphasis on the problems that smallholder farmers face in farming activities.

Strengthening the role of agriculture in poverty reduction can come in the form of investment in the following priority areas:

- Rural infrastructure development, such as feeder roads and small bridges; telecommunication, and energy
- Technologies that enhance productivity (use of improved inputs, irrigation, mechanisation, etc.)
- Increasing land under irrigation, through small-scale irrigation schemes which have the potential to increase food production and raise the standard of living in rural communities by improving water management and conservation
- Investing in local production of essential inputs (seeds and fertilisers, and chemicals) at affordable prices and, where necessary, subsidising vulnerable groups
- Improved access to assets such as land; where land reform is necessary, it should be such that it ensures increased production and some degree of integrated production approach, and should take into account property rights of individuals, especially women
- Access to credit for investing in agriculture should be guaranteed at affordable interest rates for all who need it, and even microcredit facilities should be available for small-scale farmers
- Improved access to services such as research and extension services for both crop and animal production
- Expanding training for agriculturalists and veterinary specialists
- Increasing smallholder productive and supply competitiveness, and improving access to markets through the provision of information on market requirements and behaviour
- Liberalising movement of food and all agricultural products across all regions in the country and across borders, to ensure areas of haves

supply areas of deficit through the harmonisation of sanitary and phytosanitary (SPS) measures

- Expediting the establishment of physical and monetary food reserve facilities to ensure food security in the country.

*Invest in manufacturing and processing and not to export raw materials*

SADC countries should enhance their productive competitiveness by investing in value-addition processes that would add more value to the locally produced raw materials for export. In this regard, programmes such as industrial coaching for groups of craftsmen and artisans (joinery, weaving, garment, dye-works, small production of furniture, jewellery, etc.), who could add value and exploit value chains within and across the region, should be implemented as a matter of priority.

*Product diversification*

Governments should put in place policies that encourage the private sector, both large and small corporations, to enter into new lines of production through product diversification, which would enlarge the ability to access a variety of markets and would remove the current reliance on a few export products that are usually risky.

*Development and financing of SMEs*

- The development of SMEs and microfinance packages should form an integral part of the PRSPs, so that a vibrant SME sector develops that contributes to economic growth and provides stable employment and decent incomes, thus reducing the incidence of poverty and complementing efforts of both the public and private sectors of the economy.
- Small enterprise development can take the form of relaxation of regulatory requirements in the setting up of SMEs; creation of representative bodies that represent and further the interests of SMEs; provision of and increased access to funding through credit finance, equity finance, credit guarantee schemes, microfinance institutions or tax incentives; improving access to markets; mentorship programmes and subcontracting to SMEs by bigger companies; facilitating training programmes

(business development programmes); and the promotion of women entrepreneurship.

- Incentives should be provided to SMEs to encourage more entrepreneurs to start new enterprises or expand existing ones, thereby increasing production and employment, the ultimate effect being reduction in poverty.
- Facilitate training in product quality and standards so that SMEs can access and meet market requirements with ease.

### *Consultation with and participation of relevant stakeholders*

The study established that local ownership of trade liberalisation and poverty reduction initiatives is an issue of concern by civil society, who feel marginalised. In order to ensure the successful design and implementation of PRSPs, all relevant stakeholders, such as members of parliament, local authorities, civil society, the private sector, labour, women's groups, the disabled and other socially vulnerable groups, must take part in all stages of the process – from the identification, design and implementation to evaluation – to ensure sustainability and ownership of the initiatives by the communities that benefit from them. In this way, all stakeholders will take pride in their contributions and will feel involved and confident in participating without reservation in the initiative. Donors need only be consulted once the community has set its priorities for support purposes, with minimum conditionalities, where possible.

### *Ensuring continuity in the participatory process*

Governments need to create institutional mechanisms to ensure effective communication with, and feedback from, civil society and all stakeholders, as well as to delineate clear roles for civil society actors to play, which would raise their enthusiasm and willingness to contribute to the pace of implementation of the poverty reduction initiatives.

### *Targeted programmes for vulnerable groups*

In order to have the most significant impact on poverty, poverty reduction strategies need to avoid mainstreaming and come up with specific and targeted programmes for vulnerable groups to enable them to escape the

multiple, reinforcing and vicious aspects of poverty in which they find themselves. Examples of such programmes include women empowerment (education, jobs, business), rural development (infrastructure, inputs programmes for rural farmers), child support programmes (immunisation, support for child-headed families), programmes for the disabled (equal opportunities), and channelling resources to fight the HIV/AIDS pandemic and other communicable diseases affecting the poor.

#### *Appropriate mix of pro-poor and inclusive growth policies*

In light of the fact that growth does not necessarily lead to poverty reduction, there is a need to design and come up with an appropriate mix of policies to make sure that the growth is inclusive and participatory in nature, and opens up opportunities for the vulnerable to be involved in economic activity. For example, this can be done by ensuring that resource allocation is all-inclusive and balanced. In some cases, it can even be tilted in favour of the economically disadvantaged groups, for example social assistance being directed to poverty prone groups such as children, women, the unemployed and rural dwellers. However, humanitarian assistance should not be allowed to create a culture of dependency, but encourage involvement and production by all.

#### *Investment in the collection of statistics on poverty*

Lack of appropriate data on local/community-level poverty dimensions is affecting the design of appropriate policy interventions. SADC countries need to improve poverty diagnosis by investing in surveys such as Participatory Poverty Assessments (PPAs) to collect and come up with reliable data on the poverty level for relevant policy interventions. This is a necessary condition for targeting, as policymakers are able to come up with more informed policies to fight poverty based on the findings of statistics collected.

#### *Enhanced monitoring and evaluation of PRSP implementation*

In order to come up with better policies in the fight against poverty, there is a need to constantly monitor and evaluate the implementation of PRPs using different monitoring approaches, such as PPAs, Income and Expen-

diture Surveys (IESs), Poverty Observatory, parliamentary oversight, and budget analysis, as previously explained.

### *Institute zero-tolerance policy on corruption*

Having noted that corruption can seriously undermine poverty reduction efforts, it becomes vital to design policy actions that combat and eliminate corrupt activities in the implementation of the SADC TP and poverty reduction strategies. These include the establishment of anti-corruption units, the introduction of heavy and deterrent penalties for offenders, the removal of bureaucratic procedures, and making direct assistance for disadvantaged groups.

### *Tax reductions*

Countries should reduce taxes and open the market further, especially on products that are consumed and produced by the poor, to increase people's access to basic consumer goods and services.

## **At regional level**

### *The role of regional economic integration (trade)*

There is a need for a holistic and comprehensive approach to poverty reduction at regional level. All programmes for SADC should focus on economic growth and poverty reduction. Accordingly, the RISDP needs to be reviewed regularly, especially in view of the current multiple global economic, financial and social crisis that is greatly affecting reduction programmes. There is a need to come up with pro-poor regional trade policies which will be part and parcel of the PRSPs or own-initiated poverty reduction strategies, whichever is the case.

SADC should focus on integrating the regional markets across the board, as they complement each other. The goods market has to be liberalised in tandem with the services market (infrastructure, finance, energy), which is central to poverty reduction. There is urgent need to look at the liberalisation of markets in a holistic manner to ensure such actions benefit from synergies created by each sector.

*Increased intra-regional trade*

The study established that one of the main pitfalls is that the countries of SADC trade more with industrialised countries than among themselves, yet the industrialised countries are currently facing a serious global crisis and have accordingly reduced demand for raw material exports from the SADC region. As a strategy, SADC countries need to expand intra-regional trade and reduce dependency on markets outside the region, which have proved unreliable during crisis times.

SADC intra-trade has the potential of being increased through the production of non-traditional exports and the elimination of both tariff and non-tariff barriers. SADC trade data show that there is the potential of increasing such trade and avoiding reliance on countries outside the region. By increasing trade between SADC members, the growth prospects of the countries will be enhanced through increased exports, FDI, economic growth and reduction in unemployment, ultimately reducing poverty. In general, the growth rates of the economies of SADC could improve if the scope of intra-industry trade could be widened and trade in the pro-poor commodity bundles increased, with the final result being poverty alleviation. In this regard, SADC member states and their Secretariat should

- ensure that pro-poor agricultural products are removed from the sensitive list basket
- urgently simplify the rules of origin for all products
- harmonise SPS measures, quality and standards
- introduce special forms for clearing goods by small traders who are the poor
- facilitate technology transfer to SMEs so that they can become competitive to export effectively in the region
- introduce new trade facilitation measures at border posts to reduce congestion and the waiting period for exporters and importers, and
- use a regional approach to access Aid for Trade for developing trade-related infrastructure and trade facilitation.

*Strengthening existing and exploring new financing options for PRPs*

In order to ensure adequate funding for PRPs, there is a need to strengthen and complement current sources of funding by exploring and considering

new financing options. The North–South Conference held in Lusaka in April 2009, whose main objective was mobilising development resources towards the implementation of trade facilitation, is a good example. Other key interventions can include

- self-financing mechanisms (e.g. poverty levies, budget allocation for poverty reduction)
- operationalisation of the Regional Development Fund (RDF) proposed under the RISDP through contributions from member countries, national development finance institutions, as well as multilateral finance institutions such as the AfDB
- proposing a Regional Aid for Trade initiative that could finance the trade-related infrastructure gaps and market access capacity building needs of member states
- redirecting the resources from current sources of funding (Enhanced Integrated Framework, IMF/World Bank, donor aid) to clearly defined and targeted poverty reduction programmes which have the potential to create opportunities and to be sustainable in the long term
- encourage African finance institutions such as the African Import and Export Bank, the AfDB and the Preferential Trade Area Bank to establish special financing facilities geared to financing poverty reduction programmes and small and medium scale enterprises, and to provide microfinance credit for microfinance operators, especially rural based
- operationalisation of the Aid for Trade initiatives, and
- continued debt cancellation under the HIPC initiative so that such resources are channelled to financing poverty programmes.

#### *Establishment of a regional Poverty Observatory body*

Besides national poverty monitoring units, it is essential that a regional Poverty Observatory be set up to work closely with the national units and to exchange best practices in monitoring and evaluating the implementation of poverty activities. The regional Poverty Observatory should be a function of the SADC Secretariat, to enable it to monitor and report on the implementation of the regional PRP. The observatory function would coordinate stakeholder participation and contributions in the implementation of the regional PRP, compile periodic progress reports and engage stakeholders in order to ensure ownership and maintain interest in the

project/activities. To be effective, the regional Poverty Observatory would require accurate and reliable statistics.

#### *Investment in collection of statistics on poverty*

In addition to member countries investing in the collection of poverty statistics at a regional level, SADC must also make such an investment to establish a mechanism or body specifically responsible for designing best practices for data collection, standard measures to guide member nations in collection, and collation and dissemination of poverty statistics in a timely and user-friendly manner.

### **Regional and international financial institutions and donors**

#### *Establishment of more poverty-focused lending and donor assistance programmes*

Lending institutions or donors should increase operational emphasis on poverty reduction by coming up with poverty-focused lending or donor assistance programmes. This can be achieved by

- focusing clearly and unequivocally on inclusive growth and poverty reduction, including human capital development
- making poverty, gender and environmental issues the heart of macro-economic and sectoral strategies
- monitoring poverty systematically in all countries that receive lending or donor assistance, and
- holding management and staff accountable for ensuring the participation of all stakeholders in the formulation of assistance strategies and for achieving the banks' stated objective of poverty reduction.

#### *Donor harmonisation and alignment in the financing of poverty strategies in line with the Paris Declaration on Aid Effectiveness*

There is a need for more concerted efforts to improve donor alignment and harmonisation in line with commitments made at the Paris Declaration of 2005 and the Accra Declaration to ensure that aid benefits the people it is intended to benefit – the poor.



*Design and implementation of a specific regional framework for poverty reduction*

Over and above the RISDP, there is a need to design and implement a specific Regional Poverty Reduction Framework, which would act as the guiding framework for all member countries with the best practices for poverty reduction strategies. The framework should cover

- best practices for poverty assessment
- best practices for designing a PRS
- guidelines on possible and sustainable funding options
- best practices for implementing a PRS
- best practices for monitoring and evaluating a PRS
- guidelines on redesigning or adjusting a PRS, and
- enhancing the coordination of the design and implementation of regional and national PRPs.



The general conclusion is that impressive economic growth, prudent macroeconomic policies and generally good governance–political commitment to reduce poverty have had the most significant impact on poverty reduction. It is also noted that countries with predictable and credible trade liberalisation programmes and that implemented regional integration commitments, especially with regards to the SADC FTA, have also had an impressive record in poverty reduction. However, in most countries in the region, supply-side constraints and behind-the-border issues have not allowed the country to exploit the potential of a regional FTA. Another lesson is that appropriate policy interventions in agriculture in certain countries have reduced poverty levels, given that agriculture plays a major role in the livelihoods of the majority of the population in the SADC region.



# REGIONAL TRADE INTEGRATION, ECONOMIC GROWTH AND POVERTY REDUCTION IN SOUTHERN AFRICA

Despite a long history of regional integration and a multiplicity of regional organisations in southern Africa, the effect of regional integration on economic growth and poverty reduction remains debatable or elusive. This causes many to doubt whether regional integration is in actual fact an effective poverty-reduction strategy. Accordingly, the focus of this book is to explore and analyse whether specific Southern African Development Community (SADC) trade integration policies, especially the trade liberalisation regime, have produced economic growth and reduced poverty in the region. While it is generally agreed that economic growth is the panacea to poverty reduction, there is little evidence as to whether regional integration in Africa is associated with economic growth in the countries concerned and subsequently leads to poverty reduction. The book makes recommendations on how the SADC FTAs can contribute to poverty reduction and socioeconomic development, and goes on to suggest policy proposals on how to enhance the contribution of the FTAs to poverty eradication and economic development. It also identifies specific activities to be undertaken to enable supply-side and productive competitiveness interventions to support the FTAs and contribute to economic development. The potential constraints and negative impacts of the FTAs are investigated and highlighted, and possible solutions are recommended and motivated.

